



# Client Bulletin

Smart Tax, Business & Planning Ideas from your Trusted Business Advisor<sup>sm</sup>

## Financial Steps to Take After a Child Is Born

October 2016



The arrival of a newborn can be a joyous occasion. Even while emotions are at their peak, though, you shouldn't neglect the practical aspects. Several steps should be taken to protect the family's finances, and the sooner the better.

### Start with Social Security

Assuming the birth takes place in a hospital, ask for a birth registration form; most hospitals distribute them to maternity patients. Check the box on the form to request a Social Security number for your baby. You'll have to supply the parents' Social Security numbers.

If the birth doesn't take place in a hospital, or if there's some other reason this form isn't available, contact your local

Social Security office to get the process started. The same is true if you're adopting a child.

Once you have the Social Security number, you'll be on solid ground for claiming tax benefits. Those include an additional dependency exemption and perhaps the child tax credit. You'll also be able to open savings and investment accounts in the child's name.

### Notify your employer

Another key step is locking in health insurance for the newborn. If you're covered by an employer plan, let your employer know about the baby. When both parents have employer plans, determine which one will be better, going forward. If neither parent has a health plan at work, notify your health insurance company directly. There may be a 30-day window, after the birth, in which to enroll the child and avoid possible problems.

Regardless of your health insurance situation, you should speak with someone at your company about adjusting your IRS Form W-4, which determines the amount that's withheld from your paychecks for income tax. On your W-4, the more "allowances" you claim, the less tax you'll have withheld.

## What's Inside

- 1 Financial Steps to Take After a Child Is Born
- 2 Investing in Gold Can Be Taxing
- 3 What Goes Into a Wellness Program?
- 4 Tax Calendar

### Lighter Pedal on the Metal

*The price of gold, which soared from under \$260 an ounce in 2001 to over \$1,835 in 2011, has generally stayed in the \$1,100-\$1,400 trading range for the past three years.*

## Trusted Advice

### Child Tax Credit

- ▶ The Child Tax Credit can save up to \$1,000 per year for each qualifying child.
- ▶ To merit the credit for 2016, a child must be 16 or younger at the end of this year.
- ▶ You must claim the child as a dependent on your federal tax return.
- ▶ To get the full \$1,000 tax savings, your modified adjusted gross income (MAGI) must be less than \$110,000 on a joint return, or \$55,000 for married taxpayers filing a separate return.
- ▶ For all other taxpayers, this MAGI number is \$75,000. The credit phases out for taxpayers with MAGIs higher than the amount for their filing status. Partial credits are allowed with somewhat higher MAGI.
- ▶ Typically, MAGI for this credit will be the same as AGI.

Therefore, you might add one allowance to your W-4 after the birth of a child. You'll have more cash flow with every paycheck, money that you'll need to meet the increasing expenses of new parenthood or expanding a family.

That said, adding one allowance might not be sufficient.

**Example 1:** Marge and Paul Carter have been living in an apartment with their young daughter. The Carters recently had a son, so they bought a house to have more room for their family. The house was purchased with a mortgage, and the deductible interest payments will sharply reduce the tax the Carters will owe each year. However, those deductions, which are only realized in their tax refund, won't help them with the year-long cash crunch they'll be experiencing with a newborn baby and a new mortgage payment. Adding only one allowance to Paul's W-4 may still result in over-withholding and make for a financially strained year.

Paul could add two, three, or more allowances to his W-4, boosting the net amount from each paycheck. The danger, though, is that Paul will be under-withheld and will wind up owing taxes and possibly interest or penalties at tax time. Our office can

help you determine the amount of W-4 allowances to claim, in order to maximize cash flow without incurring a future tax problem. Similarly, we can help you determine how much to adjust estimated tax payments after the birth of a child.

### Enhance your estate plan

Whether you just had your first child or have added a sibling to the family, the addition of a family member should mean reviewing your estate plan. Do both parents have wills? If not, getting them drawn up should be a top priority. Parents who already have wills should see if any changes are required. ■

## Did You Know?

**W**orkers overwhelmingly consider health insurance to be the most important employee benefit. In a survey, 88% of employees said health insurance is "extremely important" or "very important." Indeed, 60% of those surveyed are planning to work longer than they would like in order to continue receiving health insurance through their employer.

Source: Bloomberg

## Investing in Gold Can Be Taxing

Investment asset classes include precious metals, especially gold. Enthusiasts cite several reasons for including gold in a diversified portfolio. If governments print money to cover increasing obligations, gold may act as an inflation hedge. Moreover, gold can offer a safe haven in times of geopolitical upheaval: in mid-2016, for example, when Great Britain voted to leave the European Union (Brexit) and financial markets were unsettled, the price of gold reached a two-year high.

If you decide to allocate some investment dollars to gold, there are many options to choose. The tax treatment can vary, depending on how you invest, and you might be unpleasantly surprised.

### Classed as a collectible

Gold investors may prefer to invest in "physical" gold: mainly, coins and bars. If the price of gold increases over time, so will the value of these holdings. Investments in gold mining companies,

on the other hand, don't have this direct relationship.

However, physical gold is considered a "collectible," under the tax code, similar to paintings or rare stamps. Any profits on the sale of collectibles is taxed as ordinary income, with a top rate of 28% if the item has been held for more than one year.

**Example 1:** Dave Adams bought gold coins several years ago. He sells them in 2016. This year, Dave's taxable income is \$250,000, which puts him in the 33%

federal tax bracket. His profits on the sale of the gold coins is taxed at 28%, the top rate on collectibles.

Suppose that Dave had invested in a gold mining stock or in a fund holding shares of mining companies. In that situation, Dave's profitable sale would have been taxed no higher than 15%, the typical tax rate on long-term capital gains. The highest tax rate on long-term capital gains, owed by investors with extremely high incomes, is 20%—which is still lower than the maximum 28% tax rate on long-term collectibles gains.

### Funds can be collectibles

Increasingly, investors are choosing bullion-backed exchange-traded funds (ETFs) for gold investing. Essentially, these funds buy huge amounts of physical gold, store that gold, and issue shares to investors. The value of the shares is directly related to the price of gold.

**Example 2:** When gold trades at \$1,250 an ounce, Jenny Brown invests \$25,000 in a gold-backed ETF. If gold prices go up 20%, to \$1,500 an ounce, Jenny's shares will be worth approximately \$30,000, for a 20% gain. If gold falls 20%, to \$1,000 an ounce, Jenny's shares will be worth around \$20,000, for a 20% loss.

Gold-backed ETFs can be bought and sold like any stock or fund, so

they can fit easily into the rest of your portfolio. As indicated, they offer a direct play on the price of gold. On the downside, gold-backed ETFs are taxed as collectibles, even though they seem to be similar to traditional traded securities. If you sell one of these ETFs at a profit after a holding period of more than a year, you won't get the benefit of low long-term capital gain tax rates. Instead, long-term gains will be taxed as ordinary income, with tax rates as high as 28%.

### Mining stocks and funds

Another way to put gold into your portfolio is to buy shares of a gold mining company, or shares of a fund holding mining-company stocks. Generally, rising gold prices are good for these securities. In fact, if you're truly bullish on gold, such investments might be ideal because operating leverage can boost your gains.

**Example 3:** Wayne Douglas buys shares of ABC Gold Mining Corp. when gold is priced at \$1,250 an ounce. ABC can mine and deliver gold to the market at \$1,000 per ounce, with costs that are mainly fixed, for a profit of \$250 an ounce, in this example.

Suppose that gold goes up to \$1,500 an ounce, for a 20% gain. Here, ABC's profit goes from \$250 an ounce to around

\$500 an ounce, for a 100% gain. With a leap in profitability of that magnitude, it's possible that ABC shares will rise far more than the 20% rise in the price of gold. This is a simplified example, but a successful investment in mining shares might be more lucrative than an investment in physical gold or in bullion-backed ETFs, if gold rises in price.

In addition, gains on the sale of mining shares held more than one year will get long-term capital gain tax treatment, as mentioned. Depending on the investor's income, such gains would be taxed at 20%, 15%, or even 0%.

Nevertheless, operating leverage can work against investors, too. A drop in the gold price could reduce or eliminate profits and send ABC's share price tumbling. Moreover, any investment in an operating business takes on business risk: exposure to poor management, labor problems, lagging production, and so on. Thus, buying mining shares is not a direct play on gold's valuation.

There are still other ways to invest in gold, from closed-end funds to exchange-traded notes. Each may have pros and cons and well as varying tax treatment. If you are considering an investment in gold via an unfamiliar vehicle, our office can explain the tax consequences. ■

## What Goes Into a Wellness Program?

A 2016 report from the Society for Human Resource Management found that 78% of surveyed businesses offered wellness benefits to their employees. It's true that wellness programs are most common in large corporations, but small companies also can offer these benefits and reap the advantages.

Generally, wellness programs may improve worker morale and perhaps lead to greater retention of key employees. Direct results might include fewer

health-related absences, greater energy, and more on-the-job productivity. Cost reduction also may result if the company winds up paying less for health insurance and workers' compensation.

### Education and motivation

If you decide to offer a wellness program to employees, where do you begin? One popular starting point is to offer education and information leading to better health choices. Wellness tips

might be delivered by health-oriented newsletters, email, or tweets. Companies commonly schedule "health fairs," events where vendors and exhibitors come to the workplace with educational materials on health and fitness. Often, employees can get readings on blood pressure, cholesterol levels, and other physical conditions at health fairs.

Taking fitness information a step further, some wellness programs bring in health or lifestyle coaches for the



employees. Although these coaches will differ in their approach, they generally attempt to help plan participants discover and articulate wellness goals. Those objectives might include weight loss, better eating, smoking cessation, and stress reduction. Once the goals have been expressed, wellness coaches may help employees make reasonable choices towards achieving the desired results.

### Stepping into wellness

Beyond information, wellness programs can include simple group activities

such as stretching and walking. “Stretch breaks” might be led by trainers, who’ll demonstrate simple exercises that can be done at work to prevent soft tissue injuries. Walking programs, which often are popular among employees, might involve establishing walkway routes around the office to encourage employees to become more active. The American Heart Association offers a Workplace Walking Program Kit to help companies get their employees to take “the first step on the path to wellness,”

as the association puts it.

Wellness programs also can deliver medical benefits to employees. For example, many health care companies offer on-site flu vaccine clinics. Convenient and cost-free for employees, such benefits may attract workers who don’t otherwise participate in wellness programs, perhaps enticing them to become more active. Of course, widespread flu vaccination likely will cut down on employee sick days lost to influenza.

### Added benefits

Another popular benefit available from health care companies is a toll-free 24-hour nurse telephone line. Participants, covered spouses, and eligible dependents can receive immediate answers from registered nurses to questions about possible illnesses, minor injuries, prescription instructions, and other areas of concern.

Wellness programs can be tailored to suit the needs of your employees. Benefits might include smoking cessation or weight loss programs, CPR and first aid training, visiting guest speakers from local hospitals and universities, and more.

To encourage participation in wellness programs, you might offer discounts on health insurance premiums for getting an annual health risk assessment, for example, or for not smoking. Conversely, employees who smoke might have to pay higher premiums. One way to start a wellness program is to ask your health insurance company which benefits have proven to be most effective. ■

## TAX CALENDAR

### OCTOBER 2016

#### October 17

**Individuals.** If you have an automatic six-month extension to file your income tax return for 2015, file Form 1040, 1040A, or 1040EZ and pay any tax, interest, or penalties due.

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in September if the monthly rule applies.

**Electing large partnerships.** If you were given an additional six-month extension, file a 2015 calendar year tax (Form 1065-B).

#### October 31

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the third quarter of 2016. Deposit any undeposited tax. (If your tax liability is less than \$2,500, you can pay it in full with a timely

filed return.) If you deposited the tax for the quarter in full and on time, you have until November 10 to file the return.

For federal unemployment tax, deposit the tax owed through September if more than \$500.

### NOVEMBER 2016

#### November 10

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the third quarter of 2016. This due date applies only if you deposited the tax for the quarter in full and on time.

#### November 15

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in October if the monthly rule applies.