

# INVESTOR INSIGHTS

*Creating a clear path through retirement*



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## Living the Dream

According to the famous groundhog, Punxsutawney Phil, we're in for another six weeks of winter, which is great news for us desert rats! We'll take all the clouds and cool weather we can get. No need to get out the suntan lotion just yet - we're in for more scarves and sweaters at least for a few more weeks...

## Fabulous February!

Congratulations to Michael & Darcy's eldest daughter, Tori, who recently graduated Cal State Fullerton with a Bachelor of Fine Arts degree. We can't wait to see what she does with all of her amazing artistic talents. Garrett has been busy advising retirees & pre-retirees on the importance of Social Security planning. In other exciting news, the Clark household has just welcomed a new fur baby into their lives - an adorable terrier mix named Leia! The new addition to the family is helping the kids learn the value of discipline, patience, and responsibility.



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## 7 Timely Tax Break Tips

You may have heard about some of the great money-saving tax deductions allowed by the IRS. The deductions for mortgage interest, charitable contributions, and medical expenses can be especially lucrative if you paid these expenses. However, the reality is that these deductions cannot be used by most Americans. These and most other tax deductions require you to itemize your deductions, which only 29% of Americans choose to do. Fortunately, there are some tax breaks everyone can use, even if they don't itemize.

### Adjustments to income vs. deductions

When it comes to tax deductions, you have two choices. You could opt for the standard deduction, which is currently \$6,200 for singles and \$12,400 for married couples. Or you can choose to itemize deductions, which means adding up all of the deductions to which you are entitled and subtracting the total from your taxable income, thereby lowering the taxes you owe. You can use whichever method is more beneficial to you.

However, there are a few deductions you can take regardless of whether you itemize deductions or take the standard deduction. These are known as adjustments to income or "above-the-line" deductions, and they lower your adjusted gross income (AGI) before your other deductions are applied to calculate your taxable income.

### 7 adjustments to income

As of the 2016 tax year (the tax return you'll file in 2017), here are seven of the most common adjustments to income allowed by the IRS. In no particular order, they are:

#### 1. Traditional IRA contributions

The deduction for traditional IRA contributions is unique, as it is the only deduction on this list you can still take advantage of for the 2016 tax year. As long as you qualify based on certain income limitations, you can deduct up to \$5,500 in contributions (or \$6,500 if you're over 50) to a traditional IRA account for the 2016 and 2017 tax years. In addition, there's a tax credit for low- to middle-income taxpayers designed to incentivize retirement savings that you might be able to take advantage of, on top of this deduction. This is a big reason why I've written before that retirement saving is the best tax break of all.

#### 2. Alimony paid

If you pay alimony to a former spouse, or under a separation agreement, then it can be used as an adjustment to your income, and it must be claimed as income by the recipient. It's important to keep in mind that child support and any noncash (property) payments don't qualify.

#### 3. Bad debts

If you're owed money that you can't collect, then you may be able to write off the amount you're owed as an adjustment to income. There's a method to determine what constitutes a legitimate bad debt for tax purposes, but generally speaking, you must be able to prove that the transaction was intended as a loan and not as a gift, and you must establish that you've made a reasonable effort to collect the debt.

#### 4. Moving expenses

If you move a significant distance and begin a new job shortly thereafter, many of the expenses incurred during the move can be used as an adjustment to income. You don't necessarily need to have a job lined up before you move. Instead, you just need to work full-time for 39 of the 52 weeks immediately following the move, and your new house needs to be at least 50 miles further from your old job than your old house was.

#### 5. Student loan interest

If you're one of the millions of Americans who makes student loan payments, then some or all of the interest you pay could be tax-deductible. As of the 2016 tax year, you can deduct the lesser of \$2,500 or the actual amount of interest paid. This deduction is subject to income limitations: Your modified adjusted gross income (MAGI) must be less than \$65,000 if you're single, or less than \$130,000 if you're married filing jointly, to take the full student loan interest deduction.

#### 6. Tuition and fees

If you don't qualify for either of the two tuition tax credits, you may be able to take advantage of the tuition and fees deduction instead. You can deduct up to \$4,000 in qualified education expenses if your MAGI is less than \$80,000 (single) or \$160,000 (married filing jointly). It's worth mentioning that the credits are usually more beneficial if you qualify, so here's a quick guide to help you determine which is the best tax break for you.

#### 7. Educator expense deduction

If you are a full-time (defined as at least 900 hours per year) K-12 teacher, instructor, counselor, principal, or aide, you can deduct up to \$250 in unreimbursed expenses related to your profession. These expenses can include things such as professional development activities, classroom supplies, software you use, and others.

Kind Regards,

Michael Clark, CFP & Garrett Yack

# LOLA GREEN



Ensemble Wealth Management is proud to introduce Lola Green, Enrolled Agent USA Tax Experts, Inc.

Lola will be providing in-house tax preparation services at our office 2 days per month. We're bringing the tax preparation and financial planning pieces together to make things easier and more convenient for our clients.

Now, you can get your taxes done and complete your financial review all in one place. This is just another way we're helping you create a clear path through retirement.

### Available Dates:

February 23rd

March 9th  
March 23rd

April 6th

**TAX DEADLINE IS APRIL 15TH**

**Don't wait until the last minute!  
Call to schedule a meeting with us.**

**760-341-8932**