Quarterly

BEACON HILL INVESTMENT ADVISORY

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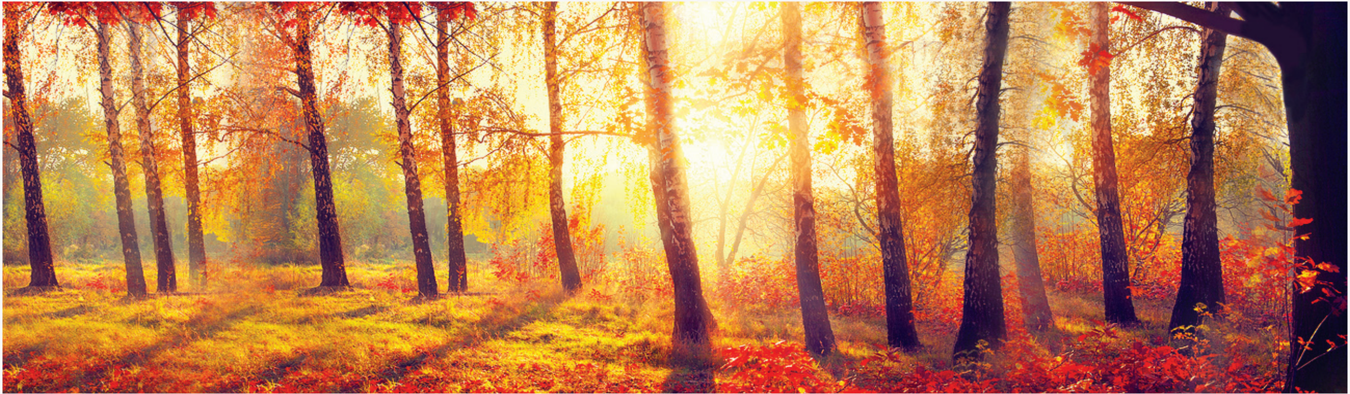

Common 401(k) Plan Misconceptions

Do you really know as much as you think you do about your 401(k) plan? Let's find out.

1. If I leave my job, my entire 401(k) account is mine to keep. This may or may not be true, depending on your plan's "vesting schedule." Your own contributions to the plan–that is, your pretax or Roth contributions–are always yours to keep. While some plans provide that employer contributions are also fully vested (i.e., owned by you) immediately, other plans may require that you have up to six years of service before you're entitled to all of your employer contributions (or you've reached your plan's normal retirement age). Your 401(k)'s summary plan description will have details about your plan's vesting schedule.

2. Borrowing from my 401(k) plan is a bad idea because I pay income tax twice on the amount I borrow. The argument is that you repay a 401(k) plan loan with dollars that have already been taxed, and you pay taxes on those dollars again when you receive a distribution from the plan. Though you might be repaying the loan with after-tax dollars, this would be true with any type of loan. And while it's also true that the amount you borrow will be taxed when distributed from the plan (special rules apply to loans from Roth accounts), those amounts would be taxed regardless of whether you borrowed money from the plan or not. So the bottom line is that, economically, you're no worse off borrowing from your plan than you are borrowing from another source (plus, the interest you pay on a plan loan generally goes back into your account). But keep in mind that borrowing from your plan reduces your account balance, which may slow the growth of your retirement nest egg.

3. Because I make only Roth contributions to my 401(k) plan, my employer's matching contributions are also Roth contributions. Employer 401(k) matching contributions are always pretax–whether they match your pretax or Roth contributions. That is, those matching contributions, and any associated earnings, will always be subject to income tax when you receive them from the plan. You can, however, convert your employer's matching contributions to Roth contributions if your plan allows. If you do, they'll be subject to income tax in the year of the conversion, but future qualified distributions of those amounts (and any earnings) will be tax free.

4. I contribute to my 401(k) plan at work, so I can't contribute to an IRA. Your contributions to a 401(k) plan have no effect on your ability to contribute to a traditional or Roth IRA. However, your (or your spouse's) participation in a 401(k) plan may adversely impact your ability to deduct contributions to a traditional IRA, depending on your joint income.

5. I have two jobs, both with 401(k)s. I can defer up to $18,000 to each plan. Unfortunately, this is not the case. You can defer a maximum of $18,000 in 2015, plus catch-up contributions if you're eligible, to all your employer plans (this includes 401(k)s, 403(b)s, SARSEPs, and SIMPLE plans). If you contribute to more than one plan, you're generally responsible for making sure you don't exceed these limits. Note that 457(b) plans are not included in this list. If you're lucky enough to participate in a 401(k) plan and a 457(b) plan you may be able to defer up to $36,000 (a maximum of $18,000 to each plan) in 2015, plus catch-up contributions.

6. I'm moving to a state with no income tax. I've heard my former state can still tax my 401(k) benefits when I retire. While this was true many years ago, it's no longer the case. States are now prohibited from taxing 401(k) (and most other) retirement benefits paid to nonresidents. As a result, only the state in which you reside (or are domiciled) can tax those benefits. In general, your residence is the place where you actually live. Your domicile is your permanent legal residence; even if you don't currently live there, you have an intent to return and remain there.

Source: Broadridge

2015 Year-End Tax Planning Basics

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.

Source: Broadridge

Ohio Wants to Pay for Training Your Employees

Ohio wants to give you money to help train your employees. The state will make millions available to Ohio businesses on October 14, 2015 at 10:00 a.m. to help employers improve their economic competitiveness.

This is the third round of the Ohio Incumbent Workforce Training Voucher Program, and will reimburse Ohio companies 50 percent of eligible costs — up to $4,000 per employee and $100,000 per employer — incurred for employee training that occurs between January 1 and December 31, 2016.

This program is a cash grant and not a tax credit, so it is not dependent on tax liability.

What businesses are eligible?

Eligible businesses include for-profit entities with an Ohio location operating in one of the following industries:

- Advanced Manufacturing
- Aerospace and Aviation
- Automotive
- BioHealth
- Energy
- Financial Services
- Food Processing
- Information Technology and Services
- Polymers and Chemical
- Companies with a Corporate Headquarters in Ohio

What training is eligible?

The good news is, the list is pretty broad. Eligible training includes:

- Classes at an accredited education institution
- Training that leads to an industry recognized certificate
- Training provided in conjunction with purchase of a new piece of equipment
- Upgrading of computer skills (e.g., Excel, Access)
- Training for the ICD-10-CM/PCS diagnostics classification system
- Training from a national, regional or state trade association that offers certified training
- Training for improved process efficiency (e.g., ISO-9000, Six Sigma, or Lean Manufacturing)

Seminars and webinars are eligible, but only to the extent the program has an exam or test. Also, in-house training costs are eligible, but only employee trainer costs are eligible, not wages of employees being trained.

How to get your piece of the grant

In 2013, Ohio offered $20 million to help businesses offset training costs, and the funds were spoken for the very first day the program opened. We expect this round to be popular as well, so you'll need to act fast.

The application process is now open, so companies can analyze their upcoming 2016 training costs and complete the pre-application. Companies that wait will likely miss out on grant monies, since funds are awarded on a first-come, first-served basis. And once Ohio begins accepting applications, the funds will go quickly.

We have a great deal of experience with this program and have helped a number of clients obtain significant training grants in the past. CSH advisors can help you assemble the required information now so that you'll be ready to claim the maximum amount of training monies possible, and can also assist when requesting reimbursement for your training expenses.

Source: William T. Hallmark, JD LLM, Clark Schaefer Hackett

Retirement Plans Can Tip the Balance in Job Offers

Given the choice, prospective employees are more likely to opt for the job that offers an employer-sponsored retirement plan over one that provides a higher salary.

That's just one of the findings in the American Century Investments Third Annual Defined Contribution Plan Participant Study, which also found that how much prospective employees favored the job with the retirement plan depended on how old they were.

Workers ages 55–65 were more than five times more likely to choose the job with the retirement plan over the one with the higher salary. But even younger workers—those ages 25–54—were four times more likely to pick the retirement plan over a higher salary.

Most respondents in the study also think it's a lot worse to have too little in retirement than to miss out on something today. That said, they're not all that optimistic about how their lifestyle will be once they actually get to retirement.

Although 10 percent of those ages 55–65 think their standard of living in retirement will actually be better than it is now, and 32 percent of those ages 25–54 are optimistic enough to feel that way too, 57 percent of the older group and 44 percent of the younger group believe it will be "about the same as it is now."

The pessimists—33 percent of the older group and 24 percent of the younger—believe it will be "worse than it is now." But overall, they're not looking for affluence during retirement, just independence. And the pessimism could have something to do with the fact that a large proportion of respondents feel that their employers could have done more to encourage them to save for retirement.

Forty-one percent of those in the older group said they agreed "to some extent" that their employers had done what was needed, while 13 percent only slightly agreed with the statement and 6 percent agreed "not at all."

Among the younger group, 37 percent agreed "to some extent," while 17 percent agreed only slightly, and 7 percent agreed not at all that employers were doing all they could to encourage employees to save what they need to retire.

Source: Benefits Pro, Marlene Y. Satter

Anne Zavaglia

Beacon Hill welcomes Anne Zavaglia as the newest member of our team. Anne joined Beacon Hill in July of this year as the new Relationship Manager. Anne graduated from the Ohio State University, and also studied at the University of Urbino and the CLIC School, both in Italy. She has received her Executive Certificate in Financial Planning and plans to sit for her CFP exam in 2016. Anne ran her family's music store and was previously a mortgage loan officer, which lead to her interest in financial planning. Outside of the office, Anne plays the violin with 3 local orchestras, including the New Albany Symphony, and a quartet. Anne lives in Columbus with her husband Mark and two daughters. The next time you call be sure to say hello to the newest member of our team!

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