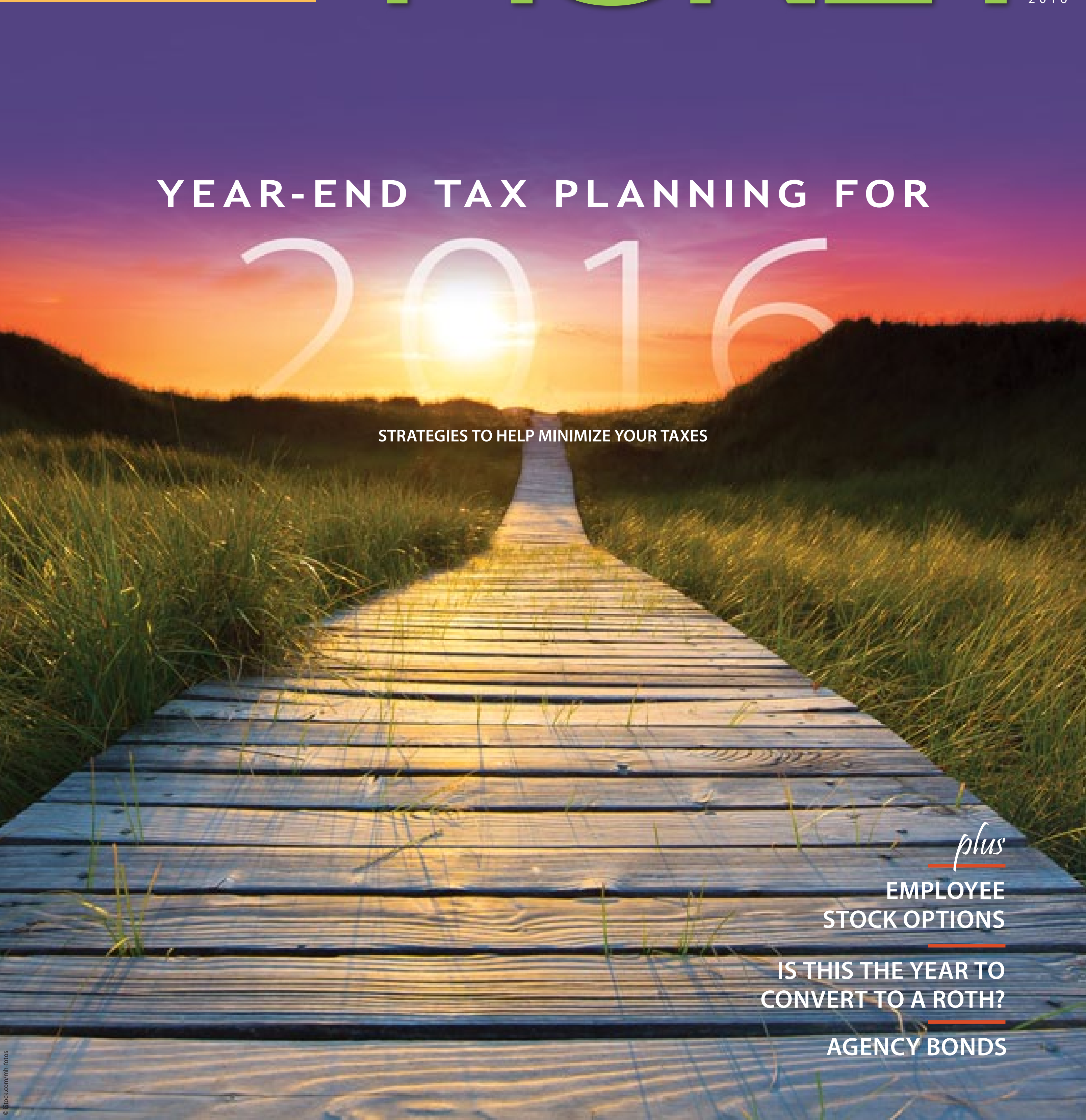
HMS

FINANCIAL GROUP

WEALTH MANAGEMENT & FINANCIAL PLANNING

EYE ON MONEY

NOV
DEC
2016



YEAR-END TAX PLANNING FOR 2016

STRATEGIES TO HELP MINIMIZE YOUR TAXES

plus

EMPLOYEE STOCK OPTIONS

IS THIS THE YEAR TO CONVERT TO A ROTH?

AGENCY BONDS

THREE THINGS TO KNOW ABOUT THE

FREE APPLICATION FOR FEDERAL STUDENT AID (FAFSA)

1 **Even well-to-do families may benefit from filing the FAFSA.** Even if your student does not qualify for federal student aid based on financial need, filing the FAFSA is:

- A necessary step in gaining access to low-interest federal education loans that are not based on financial need.
- Required by some schools before they will award merit-based aid, such as academic scholarships.

2 **The FAFSA for the 2017–2018 school year can be submitted as early as October 1, 2016.** In prior years, you had to wait until January 1 to submit it.

3 **Information from your tax return from two years ago (2015) will be used to complete the FAFSA for the 2017–2018 school year.** You no longer have to wait to complete the prior year's tax return before finalizing your application.

Please consult your financial advisor about how to plan for higher education expenses.

inside

UP FRONT

2 **Three Things to Know About the Free Application for Federal Student Aid**

3 **Should You Convert to a Roth This Year?**

3 **Should You Undo a Roth IRA Conversion?**

4 **What Are Agency Bonds?**

5 **Test Your Investing Knowledge**
Test your knowledge and gain a greater understanding of key investment considerations.

FEATURES

6 **Year-End Tax Planning for 2016**
You may be able to reduce your 2016 taxes if you act soon. This article offers general tips and strategies that are designed to minimize personal income taxes, as well as the federal gift tax.

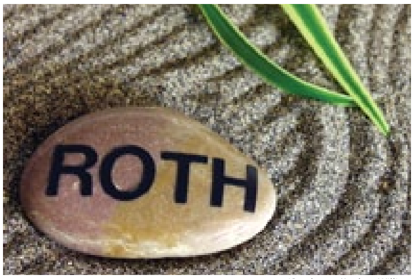
14 **Know Your Options Before You Exercise Them**
An introduction to the timing and tax considerations of employee stock options.

FYI

16 **Beaver Creek, Colorado: On a Mountain High**

18 **Art & Craft Shows**

19 **Quiz: Name That President**



© iStock.com/AndrewWilliam

Should you convert to a Roth this year?

If you like the idea of paying the tax on your retirement savings now so that future growth and withdrawals in retirement are tax-free, you may be considering converting your traditional retirement accounts to Roth retirement accounts. Is this the year to do it?

It may be if you think your tax bracket will be higher in retirement than it is this year, and as a result you may pay less tax by converting now than you would in retirement as you make withdrawals from your traditional retirement accounts.

Be sure, however, to consider whether you can afford to pay the tax this year. Ideally, it should be paid from funds outside of the retirement account to avoid diminishing the amount that is available to compound tax-free.

Also, keep an eye on the impact that a conversion has on your current tax rate. The pre-tax amount you convert will be added to your taxable income in the year of the conversion and may push you into a higher tax bracket with a higher tax rate. Consider converting just enough each year to keep your taxable income from spilling into the next tax bracket.

And be sure to consider when you expect to begin withdrawals. If you are under age 59½, the money you convert generally must remain in the Roth account for at least five years to avoid a 10% early withdrawal penalty. ■

Should you undo a Roth IRA conversion?

You have until October 15 of the year following a Roth IRA conversion to undo it. Why undo it? Perhaps you have simply changed your mind, or perhaps your account has declined in value since the conversion and you want to avoid paying tax on the lost value.

To give you an example, let's say you convert $200,000 to a Roth IRA and the account value decreases to $175,000 in the months following the conversion. Your tax liability is based on the pre-tax amount you converted ($200,000) not the current value of the account ($175,000) so you are stuck paying tax on $25,000 that you no longer have—unless you undo the conversion by October 15.

To undo a conversion, you generally have your financial institution transfer the amount from your Roth IRA to a traditional IRA. This process is known as recharacterizing the conversion. Once the transfer is made, you are off the hook for the tax you would have paid on the conversion. If you have already filed your tax return and paid the tax, you can file an amended return and have the tax refunded to you. And if you choose, you can convert back to a Roth IRA 30 days after the recharacterization or the year following the conversion, whichever is later.

Only Roth IRAs can be recharacterized; conversions to Roth accounts within an employer's retirement plan are final. ■

ACCOUNT TYPE	CAN BE CONVERTED TO A	CONVERSION CAN BE UNDONE
Traditional, SEP, or SIMPLE IRAs *(SIMPLE IRAs must be open for two years before they can be converted)* 401(k), 403(b), or 457(b) retirement plans with former employers	Roth IRA	Yes, if recharacterized by October 15 of the year following the conversion *(If October 15 falls on a weekend, the deadline is the following Monday)*
401(k), 403(b), or 457(b) retirement plans with current employers	Designated Roth account within the employer's plan, if the option is offered	No

PLEASE CONSULT YOUR TAX AND FINANCIAL ADVISORS FOR ADVICE ON ROTH CONVERSIONS.

PLEASE NOTE: Before moving retirement assets, please consider all of your available options and their applicable fees and features.

© iStock.com/Johnny Greig

What are agency bonds?

Agency bonds are debt securities issued by agencies of the federal government or government-sponsored enterprises.

BONDS FROM FEDERAL GOVERNMENT AGENCIES

Bonds issued or guaranteed by federal government agencies, such as the Government National Mortgage Association (Ginnie Mae), are generally backed by the full faith and credit of the United States government, meaning that the federal government guarantees their timely payment of interest and principal. Please note, though, that the government backing applies only to the interest and principal payments and does not guarantee against market value fluctuations.

Not all federal agencies receive the government's backing. Bonds issued by the Tennessee Valley Authority, a federal agency that provides electricity and other services for the Tennessee River system, are secured by revenue from its power systems and are not guaranteed by the federal government.

BONDS FROM GOVERNMENT-SPONSORED ENTERPRISES (GSEs)

GSEs are entities established by Congress to help lenders, such as banks and mortgage companies, make loans available and affordable for homeowners, farmers, and other groups.

GSEs include shareholder-owned companies such as the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae), as well as banking systems such as the Federal Home Loan Banks and the Federal Farm Credit Banks.

Bonds issued by GSEs are not guaranteed by the federal government and so have greater credit and default risk than U.S. Treasuries and bonds from federal agencies that are backed by the government. To help compensate investors for the added risk, bonds from GSEs typically offer the potential for higher yields than U.S. Treasuries with comparable maturities. ■

PLEASE NOTE:

When interest rates rise, bond prices usually fall. The effect is usually more pronounced for longer-term securities. Fixed-income securities also carry inflation risk and credit and default risks for both issuers and counterparties. You may have a gain or loss if you sell a bond prior to its maturity date.

Please consult your financial advisor for help in developing and implementing an investment plan.

FR2016-0804-0261/E

Test Your Investing Knowledge

Test your knowledge—and gain a greater understanding of some key investment considerations. Please consult your financial advisor for investment advice.

1. A prolonged period of rising stock prices is known as a:

A. Bull market
B. Bear market

2. Which asset class offers the potential for higher returns over the long term?

A. Bonds
B. Stocks

3. Mutual fund share prices:

A. Are calculated once a day after the markets close
B. Change continually throughout the trading day

4. Exchange-traded fund (ETF) share prices:

A. Are calculated once a day after the markets close
B. Change continually throughout the trading day

5. When you buy a company's bond:

A. You own part of the company
B. You lend money to the company

6. Bonds that permit the bond issuer to redeem them before their maturity date are known as:

A. Junk bonds
B. Callable bonds

7. When interest rates rise, bond prices generally:

A. Rise
B. Fall

8. Interest payments from U.S. Treasury securities are exempt from:

A. State and local income taxes
B. Federal income taxes

9. Which type of order is used to buy or sell a security at a specified price or better?

A. Market order
B. Limit order

10. Bonds issued by state and local governments to raise money for public projects are called:

A. Municipal bonds
B. Treasury bonds

11. Spreading your investment picks among a wide range of investments to lessen risk is known as:

A. Diversification
B. Dollar-cost averaging

12. Global funds typically invest in securities from:

A. All parts of the world, except the investor's home country
B. All parts of the world, including the investor's home country

13. Which type of stock typically permits shareholders to vote on certain corporate matters at the annual shareholder meeting?

A. Preferred stock
B. Common stock

Answers: 1–A, 2–B, 3–A, 4–B, 5–B, 6–B, 7–B, 8–A, 9–B, 10–A, 11–A, 12–B, 13–B

PLEASE NOTE: All investing involves risk, including the possible loss of principal. Before investing in mutual funds or ETFs, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing. Foreign investments involve special risks due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards, and other factors. Investing in emerging markets involves greater risk than investing in more established markets. When interest rates rise, bond prices usually fall. The effect is usually more pronounced for longer-term securities. Fixed-income securities also carry inflation risk and credit and default risks for both issuers and counterparties. You may have a gain or loss if you sell a bond prior to its maturity date. A portion of a municipal bond's income may be subject to state tax, local tax, and the federal alternative minimum tax. Diversification does not ensure a profit or protect against loss in declining markets.

Year-End Tax Planning for 2016

You may be able to reduce your personal taxes for 2016 if you act before the end of the year. Several year-end tax-minimization strategies are presented here. Not all of them are appropriate for everyone so please consult your tax and investment advisors for specific advice on what you can do to help reduce this year's taxes.

Lower your current income taxes by contributing to a retirement plan. Contributing to an employer-sponsored retirement plan is not only a great way to save for retirement, it can also help reduce this year's income taxes.

The income you contribute to a tax-deferred plan is generally not subject to ordinary income tax before it enters the plan. For example, if you contribute $18,000 to a 401(k) plan this year, you will not pay income tax on that $18,000 this year. If you are in the 25% tax bracket, let's say, your $18,000 contribution will reduce your current federal income taxes by $4,500.

The savings in your tax-deferred retirement plan will eventually be subject to ordinary income tax, but not until they are withdrawn from the plan, which may be decades from now. (A 10% tax penalty may apply to withdrawals before age 59½ unless you qualify for an exception to the penalty.)

If you have not contributed the maximum amount allowable for 2016, consider doing so before the end of the year. The contribution limits for 2016 are:

- *For 401(k), 403(b), and most 457(b) plans:* $18,000 for individuals under age 50. Generally $24,000 for individuals age 50 or older.
- *For SIMPLE IRAs and SIMPLE 401(k) plans:* $12,500 for individuals under age 50. Generally $15,500 for individuals age 50 or older.

Go green before the end of 2016. If you are planning to improve the energy efficiency of your home, you may want to complete the work before the end of the year. The federal government currently offers two tax credits that may help you defray some of the cost, but both credits are set to expire at the end of 2016 unless Congress extends them.

The more generous of the two credits—the Residential Energy Efficient Property Credit—generally equals 30% of the cost to add qualified solar, geothermal, wind, and fuel cell equipment to your home. The credit for fuel cells is limited to $500 per 0.5 kilowatt of capacity.

The other credit—the Nonbusiness Energy Property Credit—has a lifetime limit of $500, of which only $200 may be used for windows, and can be claimed for adding windows, doors, insulation, heating and cooling systems, and water heaters that meet specific energy standards.

There is also a federal tax credit of up to $7,500 available for purchasing a new all-electric or plug-in hybrid car. The Plug-In Electric Drive Vehicle Credit does not have an expiration date, but will phase out gradually after the manufacturer sells 200,000 qualifying vehicles for use in the United States. You can review a list of the qualifying vehicles and their credit amounts on the website www.fueleconomy.gov.

Tax on Ordinary Income

2016 Federal Tax Rate	Unmarried Taxable Income*	Married Filing Jointly or Surviving Spouse Taxable Income*	Married Filing Separately Taxable Income*	Head of Household Taxable Income*
10%	Not over $9,275	Not over $18,550	Not over $9,275	Not over $13,250
15%	$9,276–$37,650	$18,551–$75,300	$9,276–$37,650	$13,251–$50,400
25%	$37,651–$91,150	$75,301–$151,900	$37,651–$75,950	$50,401–$130,150
28%	$91,151–$190,150	$151,901–$231,450	$75,951–$115,725	$130,151–$210,800
33%	$190,151–$413,350	$231,451–$413,350	$115,726–$206,675	$210,801–$413,350
35%	$413,351–$415,050	$413,351–$466,950	$206,676–$233,475	$413,351–$441,000
39.6%	Over $415,050	Over $466,950	Over $233,475	Over $441,000

** Taxable income is your total income for the year, reduced by your deductions and exemptions.*

Shift income and deductions into the more advantageous year.

- If you will be in the same tax bracket next year, it is generally a good idea to defer income into next year and to accelerate deductions into this year.
- If you will be in a different tax bracket next year, it is generally a good idea to shift income to the year that you are in the lower tax bracket so you pay taxes on it at a lower rate and to shift deductible expenses to the year that you are in the higher tax bracket so that you get a greater reduction in your taxes.

Please consult your tax advisor first. Shifting income and deductions can have unintended consequences.

tip

The alternative minimum tax (AMT) is an alternate method of calculating tax that eliminates or reduces some of the deductions and exclusions from income that are allowed when calculating tax the regular way.

tip

Watch for signs that you may be subject to the AMT, such as:

- Realizing a large amount of long-term capital gains.
- Receiving tax-exempt interest from private activity bonds.
- Exercising incentive stock options but not selling the stock in the same year.
- Using a mortgage or home equity line of credit for purposes unrelated to your home.
- Paying high state and local taxes.
- Claiming a large number of personal exemptions.

If you suspect you may be subject to the AMT, please consult your tax advisor for strategies tailored to your specific situation. Many of the strategies discussed in this article may not be appropriate for use with the AMT.

Estimate your 2016 taxes now. Ask your tax advisor to estimate your 2016 taxes before the end of the year so that you know whether you will be subject to the AMT and can plan accordingly.

To do this, your taxes must be calculated two ways—once using the regular rules and once using the AMT rules. Under AMT rules, some of the exclusions and deductions allowed under the regular tax rules are reduced or eliminated.

If the AMT calculation returns the higher tax amount, you are subject to the AMT. Knowing this now may allow you to employ AMT-specific strategies before the end of the year to avoid or minimize it.

Estimating your taxes before the end of the year also gives you the opportunity to learn whether enough tax has been withheld from your pay to avoid interest and a penalty on an underpayment. If not enough tax is being withheld, consider increasing the amount that is withheld from your paycheck or bonus to make up the shortfall before the end of the year.

Bunch medical expenses into one year if it gets you over the threshold for the deduction. Have you tallied up your unreimbursed medical and dental expenses for the year yet? If they exceed 10% of your adjusted gross income (AGI), you can deduct the excess, as long as you itemize deductions.

Taxpayers who are age 65 or older, or who have a spouse in that age group, have a lower AGI threshold of 7.5%, but only through 2016. Beginning in 2017, the 10% AGI threshold will apply to all age groups, making it more difficult for seniors to qualify for this deduction.

If you are currently just under the applicable threshold for your age group, consider paying some 2017 medical and dental expenses this year so that you clear the threshold and can deduct the excess amount. For example, consider refilling your prescriptions before the end of the year, scheduling medical and dental appointments for December rather than January, and perhaps buying new eye glasses, hearing aids, and dentures before the end of the year.

Bunch job expenses and certain miscellaneous expenses into one year if it gets you over the threshold for the deductions. Do you have unreimbursed employee expenses, tax preparation expenses, or certain other expenses, such as fees you paid for managing your investments that produce taxable income? If so, you may want to estimate the deduction amounts and tally them up. The portion of the total amount that exceeds 2% of your AGI is generally deductible. If you are just under the 2% threshold, consider prepaying some 2017 expenses this year to get over the threshold so that you can deduct at least part of your expenses.

Unreimbursed employee expenses include expenses such as dues to professional societies, subscriptions to professional journals, union dues and expenses, work-related education, work-related meals and entertainment, tools and supplies used in your work, and many other expenses.

Before the expenses are tallied, any deduction limit that applies to a specific type of expense, such as the limit on work-related meals and entertainment, generally must be applied.

Educators: Keep track of your unreimbursed expenses. If you are an educator in grades K–12, you can generally deduct up to $250 of the amount you pay out of your own pocket for books, equipment, and certain supplies used in the classroom. And beginning in 2016, professional development expenses also qualify for the deduction.

You do not need to itemize deductions to claim this deduction.

Deductible medical and dental expenses include . . .

- Acupuncture
- Ambulances
- Annual physical exams
- Artificial limbs
- Artificial teeth
- Chiropractors
- Contact lenses
- Dental treatments
- Eye exams
- Eyeglasses
- Eye surgery
- Guide dogs
- Hearing aids
- Hospital services
- Insurance premiums
- Lab fees
- Nursing care
- Oxygen
- Pregnancy test kits
- Prescription meds
- Prosthesis
- Psychiatric care
- Psychologists
- Special education
- Wheelchairs
- Certain programs for:
  Alcoholism
  Drug addiction
  Stop smoking
  Weight loss

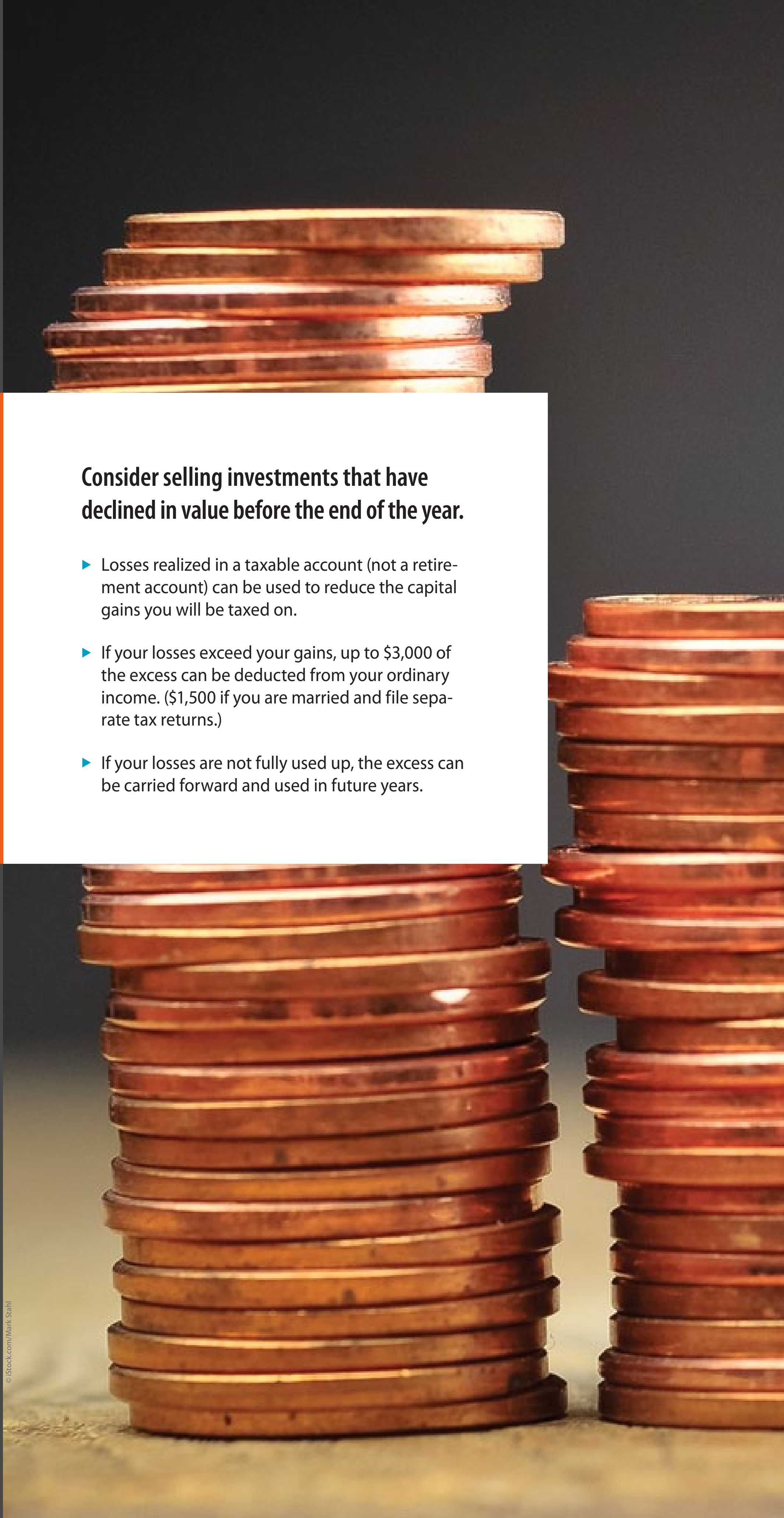
For a complete list, see IRS Publication 502.

Please note that you may only deduct the portion of your total unreimbursed medical and dental expenses that exceeds 10% of your adjusted gross income (7.5% if you or your spouse is age 65 or older).

tip for investors

Consider selling investments that have declined in value before the end of the year.

- Losses realized in a taxable account (not a retirement account) can be used to reduce the capital gains you will be taxed on.
- If your losses exceed your gains, up to $3,000 of the excess can be deducted from your ordinary income. ($1,500 if you are married and file separate tax returns.)
- If your losses are not fully used up, the excess can be carried forward and used in future years.



STRATEGIES FOR INVESTORS

The following strategies apply only to investments held within taxable accounts (not retirement accounts). Also, please do not make investment decisions based solely on tax considerations.

Avoid wash sales. If you decide to sell a stock, mutual fund, or other security that has lost value in order to use the loss on your tax return, do not buy a substantially identical security within 30 days before or after the sale. If you do, you will have what is known as a wash sale and cannot deduct the loss on this year's return.

Manage your exposure to the net investment income tax. Investors with modified adjusted gross incomes (MAGIs) in excess of $200,000 if single or $250,000 if married filing jointly have to contend with a 3.8% net investment income tax (NIIT). This surtax applies to the lesser of your net investment income or the amount by which your MAGI exceeds the threshold for your filing status. (The NIIT thresholds are shown in the lower box at right.)

Net investment income includes capital gains, dividends, interest, rents, royalties, non-qualified annuity income, income from passive activities, and income from a business that trades financial instruments and commodities. It does not include tax-exempt interest from municipal bonds or distributions from IRAs or retirement plans. However, taxable distributions from IRAs and retirement plans are included in your MAGI and count toward the income threshold.

If your MAGI is over the threshold, you may be able to decrease it by contributing some income to a tax-deferred retirement plan. If you are already retired, limiting the amount you withdraw from tax-deferred retirement plans may help keep your MAGI below the threshold.

To reduce your net investment income, you might consider harvesting investment losses to help offset your gains and holding investments that pay taxable interest in tax-favored retirement accounts. Your tax and financial advisors can help you devise a tax-efficient plan.

Hold out for lower tax rates on your capital gains and qualified dividends. When you sell a stock, mutual fund, or other security in a taxable account, the profit is generally taxable. The tax rate you pay depends on how long you have owned the security. If you have owned it for one year or less, the profit is considered a short-term capital gain and is taxed as ordinary income, at rates that range up to 39.6% (43.4% with NIIT). You can reduce the rate you pay—to a maximum of 20% (23.8% with NIIT)—simply by waiting for longer than one year before selling so that your profit is considered a long-term capital gain.

To use the lower tax rate—a maximum of 20% (23.8% with NIIT)—on your qualified dividends, you generally must hold the security for more than 60 days during the 121-day period that begins 60 days before its ex-dividend date. Sell any sooner and your qualified dividends will be taxed as ordinary income. (Certain preferred stocks must be held more than 90 days during the 181-day period that begins 90 days before their ex-dividend date to use the lower tax rate.)

Give appreciated securities to someone in a lower tax bracket. If you transfer securities that you have held for longer than one year to your child or other beneficiary who is in the 0% or 15% income tax bracket, they can generally sell the securities without owing federal tax on the capital gains.

Be sure to consider the kiddie tax before giving securities to your child. Unless your child is over age 19, or over age 24 if a full-time student, his or her unearned income in excess of $2,100 will be taxed at your rate.

Tax on Long-Term Capital Gains and Qualified Dividends

2016 Federal Tax Rate	Applies to taxpayers in these ordinary income tax brackets
0%	10% or 15%
15%	25%, 28%, 33%, or 35%
20%	39.6%

↑
These rates apply to investments held in taxable accounts (not retirement accounts) and that meet certain holding period requirements.

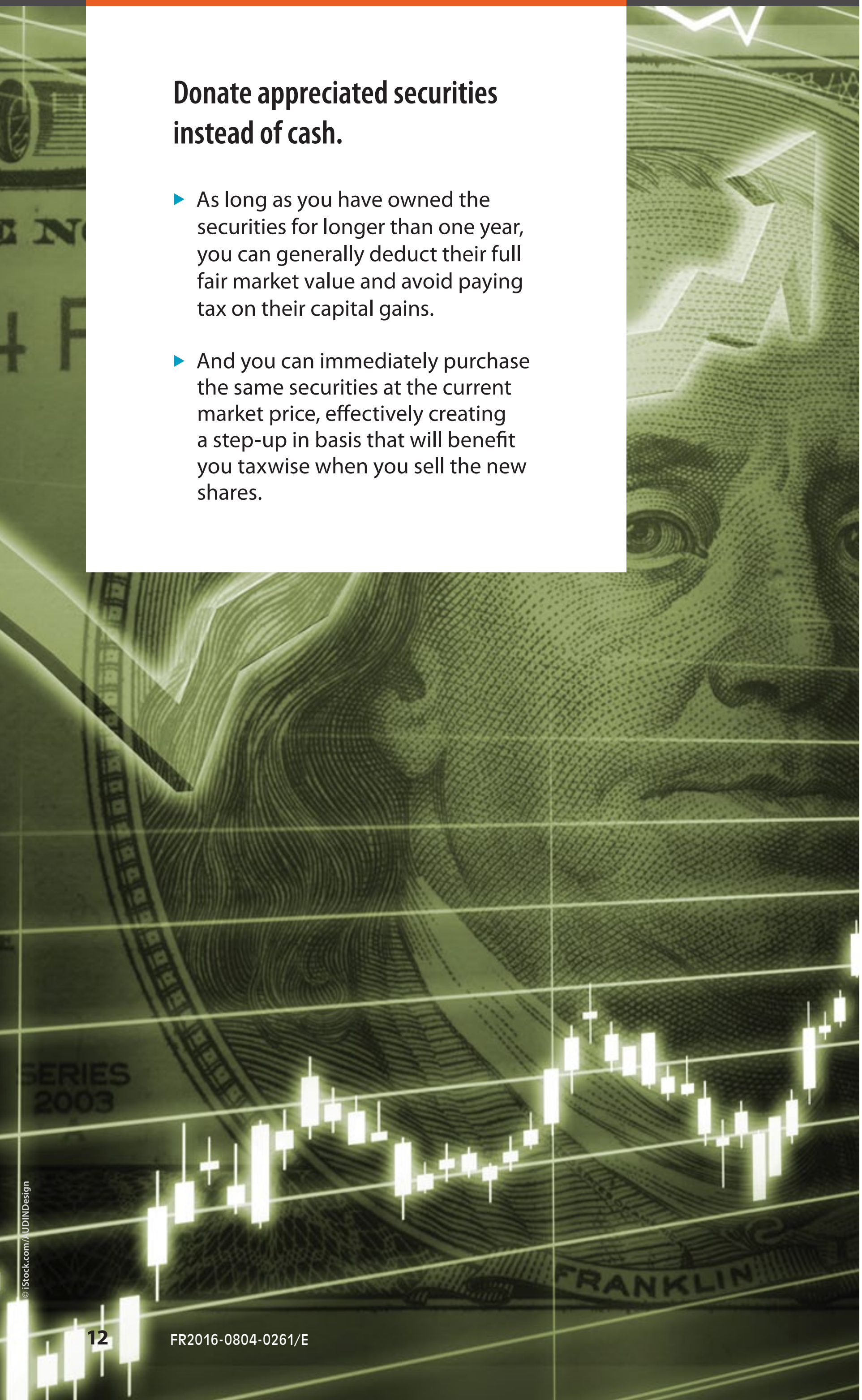
3.8% Net Investment Income Tax (NIIT)

Tax Filing Status	Affects taxpayers with net investment income and MAGIs above...
Unmarried	$200,000
Married filing jointly	$250,000
Married filing separately	$125,000
Head of household	$200,000

tip for philanthropists

Donate appreciated securities instead of cash.

- As long as you have owned the securities for longer than one year, you can generally deduct their full fair market value and avoid paying tax on their capital gains.
- And you can immediately purchase the same securities at the current market price, effectively creating a step-up in basis that will benefit you taxwise when you sell the new shares.



CHARITABLE GIVING TIPS

Keep an eye on the calendar. If you itemize deductions on your tax return, you can generally deduct the money and other assets that you donate to charitable organizations. To deduct your donations on this year's tax return, your credit card must be charged or your check mailed by December 31, 2016.

Time your charitable gifts. If you expect to be in a higher tax bracket next year, you may want to hold off making significant charitable gifts until next year so that you receive a potentially larger deduction.

For example, let's say you are in the 28% tax bracket this year, but expect to be in the 33% tax bracket next year. A $10,000 contribution this year will generally lower your taxes by $2,800, but if you wait until next year to contribute, your contribution may lower your taxes by $3,300. (Please keep in mind that limits on charitable deductions and itemized deductions may reduce your tax benefit.)

Document your gifts. You must keep good records in order to deduct your charitable gifts on your tax return.

- *For cash donations,* hang onto a bank record (cancelled check or bank statement) or a receipt from the charity.
- *For non-cash donations,* keep a receipt from the organization, as well as a written record that describes the donated property, its fair market value, and certain other information.
- *For donations valued at $250 or more,* get a written acknowledgement from the charitable organization.
- *For items or groups of similar items valued at more than $5,000,* get a written appraisal from a qualified appraiser.

FR2016-0804-0261/E

Additional recordkeeping requirements may apply in certain situations so it is a good idea to check with your tax advisor when you are planning a significant gift to charity.

Consider a donor-advised fund. If you want a charitable deduction this year, but haven't selected the charities yet, consider contributing to a donor-advised fund before the end of the year.

The organizations that sponsor donor-advised funds are public charities themselves so you can deduct this year's contributions to your donor-advised fund account on your 2016 tax return and then recommend grants to charities later on.

Consider making donations from your IRA. At the end of 2015, Congress made permanent the tax provision that allows IRA owners age 70½ and older to make tax-free distributions of up to $100,000 per year directly from their IRAs to qualified charities. The distributions count toward their required minimum distributions (RMDs) for the year, but they are not added to their gross income as RMDs normally are and so they escape taxation.

When you make a charitable distribution from an IRA, you give up the ability to claim a charitable deduction for your gift and get a reduction in your gross income instead. In some instances, such as if you do not itemize deductions and so cannot claim a charitable deduction anyhow or if your deductions are limited, a reduction in gross income may offer you a greater tax benefit. Your tax advisor can help you evaluate your options.

Please note that although charitable IRA distributions can be made to most charities, they cannot be made to donor-advised funds or supporting organizations.

ESTATE PLANNING STRATEGIES

Take advantage of the $20,000 increase in the lifetime exclusion. Due to an inflation adjustment, the lifetime exclusion for federal gift, generation-skipping, and estate taxes increased to $5.45 million in 2016, up from $5.43 in 2015.

So even if you fully used your lifetime exclusion in earlier years, you can now transfer an additional $20,000 to your beneficiaries without incurring federal transfer taxes.

Take advantage of the $14,000 annual exclusion for gifts. In 2016, you can give away up to $14,000 each to as many individuals as you'd like without your gifts being subject to the federal gift tax or reducing your lifetime exclusion. And if you are married, you and your spouse can combine your exclusions and give each recipient up to $28,000 this year.

If you suspect that your estate will be subject to either federal or state transfer taxes, making annual gifts during your lifetime can be an effective way to reduce the amount that will eventually be subject to taxes.

Use tuition payments to reduce your taxable estate. If you have grandchildren or other loved ones in school this year and want to reduce the size of your taxable estate, consider paying their tuition. As long as the payment is made directly to a qualifying educational organization, it is not subject to the gift tax and it will not use up any of your annual or lifetime exclusion.

The educational exclusion only applies to tuition payments; it does not apply to expenses such as books, supplies, and room and board. If your payment covers those items, you can generally use the annual gift tax exclusion to help offset the non-tuition expenses. ■

© iStock.com/eskaylim

Please consult your tax and investment advisors before the end of 2016 for specific advice on how to trim your 2016 taxes.

Know Your Options Before You Exercise Them

An introduction to the timing and tax considerations of employee stock options.

CONGRATULATIONS! YOUR EMPLOYER has offered you an option to buy shares of company stock after a period of time at today's share price. If the stock's fair market value increases over time, you can purchase shares at the predetermined price and either sell them immediately for a profit at their current market price or hang on to them. If you are not careful, however, you may end up owing more tax on the profit than necessary or getting stuck without the funds needed to pay the tax if you do not sell some shares immediately. Here are a few things to know about employee stock options before you exercise them.

An employee stock option is a contract between you and your employer that grants you the right to buy a certain number of shares of company stock within a given timeframe at a price determined on the date of the grant. The price is usually the stock's market price on the date of the grant.

Typically, options cannot be exercised immediately, meaning that you cannot purchase shares immediately. A vesting schedule specifies the dates when you become eligible to purchase a certain number of shares. For example, an option for 100 shares that vests gradually over four years may allow you to purchase 25 shares after year one, an additional 25 shares after year two, and so on. There will also be an expiration date, after which you no longer have the right to purchase shares at the predetermined price.

Employers offer two main types of employee stock options—nonqualified and incentive—each of which is treated differently for tax purposes.

Nonqualified Stock Options

With a nonqualified stock option, there are generally two taxable events: the first occurs when you purchase the shares and the second occurs when you sell the shares.

When you purchase the shares, the difference between the amount you pay and the stock's fair market value on the purchase date is considered compensation income. For example, if you purchase 100 shares at $10 per share ($1,000 total) on a day when the stock's market price is $50 per share ($5,000 total), the $4,000 difference is taxable as compensation.

Your employer is required to withhold income tax, as well as the employee share of Medicare and Social Security taxes, on that $4,000 of compensation. So in addition to paying $1,000 for the stock, you may also need to give your employer a check to cover the withholding tax, unless the company offers a different way to handle the withholding requirement.

There is also a chance that the amount of tax withheld will fall short of your actual tax liability so you may end up owing an additional amount when you file your tax return for the year. To help avoid tax surprises, please seek professional advice before exercising nonqualified stock options.

The next taxable event occurs when you sell your shares. The difference between your basis in the stock and the amount you receive for it is either a capital gain or loss. To determine your basis, simply add the amount you paid for the stock to the amount of income you reported when it was purchased. Continuing with the prior example, your basis would be $5,000. If you sell all 100 shares for, say, $7,000, you have a $2,000 capital gain.

The tax rate you pay on the gain depends on how long you have owned the shares. If you have owned them for one year or less, your gain is short-term and is taxed as ordinary income. If you have owned them for more than one year, your gain is long-term and is taxed at a capital gains tax rate, which is usually much lower than the rate you pay on ordinary income.

Incentive Stock Options

Incentive stock options work differently than nonqualified options and offer the potential for more favorable tax treatment.

When you exercise an incentive stock option by purchasing shares, there is no income to report for regular tax purposes (unless you immediately sell some shares), although the purchase may trigger the alternative minimum tax (AMT)—but more about the AMT later.

Under the regular tax system, taxation is postponed until the stock is sold. If you sell your shares at a profit and meet certain holding period requirements, you may be able to treat the entire profit (the difference between what you pay for the stock and the amount you receive when you sell it) as a long-term capital gain, which may save you a bundle in taxes. To meet the holding period requirements, you must hold the stock for more than two years from the time the option was granted to you and more than one year from when you purchase the stock. If you sell any sooner, all or part of the gain will be taxed as ordinary income.

Although income is not reported for regular tax purposes when you exercise an incentive stock option, you must make an adjustment for AMT purposes if the shares are not sold in the same year. The adjustment is equal to the difference between the stock's fair market value on the purchase date and the amount you pay for the stock. So unless you sell your shares in the same year that you buy them, you may end up paying the AMT that year due to the adjustment. To help avoid or minimize the impact of the AMT, please seek professional advice before exercising incentive stock options.

Employee stock options are complex and have been described here in very general terms. And although options have the potential to be very profitable, there is also the potential for loss if the stock price declines and you sell your shares for less than you paid for them. So please consult your tax and financial advisors before exercising an option.

Your advisors can help you determine when to exercise an option, how to pay for the stock and any taxes on the purchase transaction, and when to sell the stock. Plus, your financial advisor can help you assess how an influx of employer stock may affect your portfolio's asset allocation and diversification, and help you plan accordingly. ■

AN EXAMPLE OF HOW EMPLOYEE STOCK OPTIONS WORK

1

Your employer offers you the option to purchase 100 shares of its stock at an exercise price of $10 per share.

2

Typically, you must wait a specified period of time, known as a vesting period, before you are permitted to exercise your option to purchase the shares at the set price.

3

Hopefully, by the time your option vests, the stock price will have risen so that you can purchase shares for less than the stock's current market value.

Let's say the stock price increases to $25 per share. You can purchase 100 shares for $10 each. If you choose to sell the shares immediately, your profit before taxes and fees would be $15 per share ($1,500 total). Or you may choose to hold onto your shares and potentially earn an even greater profit if the stock price increases in the future. Of course, there is always the possibility that the stock price will decline.

BEAVER CREEK, COLORADO | On a Mountain High

BY BRIAN JOHNSTON

Sitting high in the Colorado Rockies between Vail and Aspen, Beaver Creek is one of North America's best and most exclusive ski resorts, says Brian Johnston.

SECLUDED, SNUG, AND RATHER glamorous, Beaver Creek is somewhat overlooked in favor of its brasher neighbor Vail. Yet there's a lot to like about this modest Colorado ski resort, not least because it's that bit further away from Denver, and in consequence just out of reach of hordes of weekend skiers and their chairlift queues. 'Not exactly roughing it' runs the upmarket resort's tongue-in-cheek slogan, and yet Beaver Creek is surprisingly laidback and family-friendly too.

True, Beaver Creek is relatively compact, but that provides the sort of convenience that can't be matched by bigger resorts. Its sleek hotels and apartments are within easy reach of chairlifts that will hoist you onto the slopes without any loss of time; the Strawberry Park Express is practically lodged in one hotel's lobby. Some of the larger hotels—outsized log cabins whose flagstones and bison heads could be off the set of *Game of Thrones*—are right at the bottom of the slopes, allowing you to leap straight from skis onto the terrace for a drink or just pause for a 30-minute moment by a brazier to toast marshmallows before you ski on.

This is the sort of place that never rests on its laurels and is always devising ways to make ski life even easier, not least with its series of outdoor, covered escalators that will trundle you on tired ski legs from the base of the lifts to hotel, après-ski bar, or village shops, which you can plunder for posh souvenirs such as fossils, dinosaur bones, paintings, and bronze sculptures. Then there are the ski concierges at many hotels, happy to lug your gear onto the slopes in the morning, and deal with your discarded boots in the afternoon. (Slotted onto heated racks overnight, they'll not only be dry but toasty when you struggle into them the next day.) Even the resort's high-tech ski passes make life simple. Their embedded computer chips waft you through lift gates without any ungainly, gloved fumbling, and keep track of the runs and the vertical feet you've skied.

Slope-side 'ski ambassadors' will also offer to carry the skis of struggling novices, and produce tissues and sunscreen from their pockets with all the nonchalance of a magician springing a rabbit from his top hat. They're just the people to ask for directions, or where the best snow is on any given day, or even, when the day is done, for restaurant recommendations. They'll also help with enrollments in ski school if you want to improve or update your ski style in group or private lessons.

Ski ambassadors also conduct two-hour, complementary tours of the slopes at 11 a.m. daily—ladies only on Wednesdays—for intermediate and advanced skiers. The tour-on-skis (or of course, snowboards) starts at the top of Centennial Express Chairlift and is well worth joining on your first day in Beaver Creek, as it provides a good overview of what to expect. The resort's image is one of compact intimacy, but in fact it offers 146 ski trails across three inter-linked mountains (Beaver Creek, Arrowhead, and Grouse), and more terrain than there is on the front side of Vail.

Beaver Creek is probably best described as an intermediate skier's resort; a Goldilocks destination neither too easy nor too hard, but just right for the type of skier who doesn't necessarily want to be challenged, and enjoys long, exhilarating cruisers on immaculately groomed slopes. The longest at just under three miles is Centennial Trail, with a happy variation of drops to keep you entertained. Kids are well catered to, enticed with fancifully named runs (Wolverine Ridge, Wild West Trail) and adventure zones for both skiers and boarders.

That said, about a quarter of the resort's green and blue runs are beginner friendly, especially given the lack of crowds; the short and often almost deserted slopes on Arrowhead Mountain

are a good place to start. One of the real pleasures of being a beginner skier in Beaver Creek is that the easiest slopes are at the top of the mountain, with great views: no learning on slushy, lower-level snow down in the valley, as you invariably do at other resorts. The higher runs are also still within the tree line, and thus sheltered from wind, and provide reasonable visibility even during that bane of the beginner's ski day, poor weather.

Advanced skiers, however, will also be able to seek out a challenge or two. Because most of Beaver Creek's clientele tend to stick to the groomed slopes, the powder between the trees can be wonderful, and the steep chutes in the expert Stone Creek terrain and Larkspur Bowl are thrilling after fresh snow has fallen. The powder tends to stick around longer, thanks to relatively low numbers of skiers. Stone Creek sits around the Cinch Express chairlift, where the nearly two-mile Birds of Prey run plunges downwards. It has some turns defying the fall line, and hidden moguls when fresh snow has fallen. This provides a world-class race venue on the men's alpine World-Cup circuit.

You won't have to stray off the slopes to get a break and refuel, even if the village does provide tempting restaurant options. High on Bachelor Gulch is a mountain hut where you can tuck into elk stew or grill your own burgers and steaks on the shared outdoor barbecue pits: a pretty spot to gaze over snow-encrusted aspen trees at hillsides scribbled over by the tracks of happy cross-country skiers. Further up the mountain is a more suave cabin with contemporary American cuisine: rack of lamb and short-rib potstickers, accompanied by a Californian red and a crackling fire. Another mountain-side cabin, which can be reached in the evening on a beautiful starlit ride in a snowcat, serves Colorado game and seafood freshly arrived off the plane from New England. The cowhide chairs and antlers of the décor might be right out of the Wild West, but Beaver Creek's chefs most certainly are not.

At the end of another fine ski day, Beaver Creek offers up another little treat as you arrive at the bottom of the hill at the village, where chefs in tall hats are waiting with trays of chocolate-chip cookies still warm from the oven. It's a modest gesture, but a telling and attentive one. Then evening awaits: fine dining and perhaps a show at the Vilar Performing Arts Centre, which over Christmas puts on seasonal favorites such as *The Nutcracker Suite* and *The Messiah*. There are more simple pleasures, too. You can go out after dinner and have a spin on the ice rink at the center of the village. Your breath clouds the air, lights twinkle from surrounding boutiques, and stars are frozen in the firmament. Wonderful. ■

© iStock.com/Brady Willette

ART & CRAFT SHOWS

Art and craft shows abound during the holiday season. Odds are that there will be at least one in your area too!

BOSTON

CraftBoston Holiday Show

Hynes Convention Center • December 2–4, 2016

Just in time for holiday gift shopping, the CraftBoston Holiday Show will feature some 175 exhibitors and their wares at the Hynes Convention Center for three days in early December.

CHICAGO

One of a Kind Show and Sale Chicago

Merchandise Mart • December 1–4, 2016

More than 600 juried artists, craftspeople, and designers will offer handmade creations in a wide array of media and at a wide range of price points at this four-day event in Chicago's Merchandise Mart. Attended annually by more than 65,000 patrons, the show presents works in categories, such as accessories, ceramics, fashion, fiber art, furniture, glass, gourmet, jewelry, paintings, photography, and sculpture. In addition to shopping for a one-of-a-kind find, you can attend artist demonstrations, workshops, and fashion shows.

CINCINNATI

Winterfair

Northern Kentucky Convention Center • November 25–27, 2016

Opening the day after Thanksgiving, this three-day juried fair of fine art and fine craft will be held at the Northern Kentucky Convention Center in Covington, KY, just over the bridge from Cincinnati. Ceramics, glass, jewelry, paintings, photographs, sculptures, and wearable art are some of the types of items you will generally find at Cincinnati's Winterfair. To double your fun and shopping opportunities, consider also attending the Columbus Winterfair the following weekend (December 2-4) at the Ohio State Fairgrounds.

PHILADELPHIA

Philadelphia Museum of Art Craft Show

Pennsylvania Convention Center • November 10–13, 2016

Museum-quality works by 195 contemporary craft artists from 34 states, selected from a pool of 875 applicants, will be on display and for sale at this juried craft show benefiting the Philadelphia Museum of Art. The one-of-a-kind works will include glass, baskets, jewelry, wearable and decorative fiber, metal, paper, leather, furniture, ceramic, wood, and mixed media. This event celebrates its 40th anniversary in 2016 and has raised more than $11.7 million for the museum over the last 39 years. ■

QUIZ

NAME THAT PRESIDENT

1. The only president elected to four terms:

A. Franklin Roosevelt
B. George Washington

2. The president who signed the Yellowstone National Park Protection Act into law, establishing Yellowstone as our first national park:

A. Theodore Roosevelt
B. Ulysses S. Grant

3. The president whose campaign slogan was "I like Ike":

A. Harry Truman
B. Dwight D. Eisenhower

4. The first president inaugurated in Washington D.C.:

A. George Washington
B. Thomas Jefferson

5. The only person to serve as vice president and president without being elected to either office:

A. Gerald Ford
B. Lyndon B. Johnson

6. Prior to being elected president, this individual led U.S. soldiers to victory in the Battle of New Orleans (War of 1812) and earned the nickname "Old Hickory":

A. Andrew Jackson
B. Andrew Johnson

7. The oldest individual ever elected president:

A. George H.W. Bush
B. Ronald Reagan

8. The only president not to live in the White House:

A. George Washington
B. Franklin Pierce

9. The only president to serve in both World Wars:

A. Harry Truman
B. Dwight D. Eisenhower

10. The first president to appoint a woman (Sandra Day O'Connor) to the Supreme Court:

A. Ronald Reagan
B. Jimmy Carter

11. The president whose portrait is on the $50 bill:

A. Ulysses S. Grant
B. William McKinley

12. This president's epitaph reads "Author of the Declaration of American Independence of the Statute of Virginia for Religious Freedom and Father of the University of Virginia":

A. Thomas Jefferson
B. John Adams

ANSWERS: 1-A, 2–B, 3–B, 4–B, 5–A, 6–A, 7–B, 8–A, 9–B, 10–A, 11-A, 12-A

HMS FINANCIAL GROUP

WEALTH MANAGEMENT & FINANCIAL PLANNING

333 Elm Street, Suite 210
Dedham, MA 02026

11278-05

HMS FINANCIAL GROUP

WEALTH MANAGEMENT & FINANCIAL PLANNING

Barbara Shapiro, CFP, CDFA, CFS & Herb Shapiro

Founded in 1988 as an independent firm, HMS Financial Group is committed to ethical and personal financial planning and wealth management. Operating as an Office of Supervisory Jurisdiction (OSJ) for one of the largest, independent investment broker/dealers* in the United States, HMS does not have proprietary products, and has no vested interest other than the financial success of its clients.

Herb Shapiro, Vice-President and founder, brings more than 44 years of industry experience to the HMS team. He began his career in 1970, and worked for several firms until 1988, when he founded HMS Financial Group. His core values of providing personal service, maintaining market objectivity, and high standards of integrity and honesty with the clients he serves, are deeply imbued in the HMS philosophy.

Barbara Shapiro, President, is a Registered Investment Advisor with the Commonwealth of Massachusetts, is a Certified Financial Planner™ and one of the first Certified Divorce Financial Analysts in Massachusetts. She holds a Master of Science in Finance from Suffolk University and is a Graduate of the Securities Industry Association Institute at the Wharton School. Additionally, she holds a Master of Education in Counseling from Boston University and a Master of Education in Moderate Special Needs from Northeastern University.

Among her many recognitions, Barbara has served as a National Board Member of the Securities Industry Foundation for Economic Education, past member of the Boston Jewish Community Women's Fund, and the Treasurer of the Massachusetts Council of Economic Education. She is continually interviewed and quoted in all of the major financial publications.

She is an active lecturer to diverse groups and educational institutions, and has written and teaches a course on financial planning, investments, and long-term care insurance.

Tel: 781-251-2655 • Fax: 781-251-2656 • Location: 333 Elm Street, Suite 210, Dedham, MA 02026
E-Mail: bshapiro@hms-financial.com