

Nexus Financial Monthly

March 2017

Due Date Approaches for 2016 Federal Income Tax Returns



Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of last year's tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to do your taxes for you.

Don't procrastinate

The filing deadline for most individuals is Tuesday, April 18, 2017. That's because April 15 falls on a Saturday, and Emancipation Day, a legal holiday in Washington, D.C., is celebrated on Monday, April 17. Unlike last year, there's no extra time for residents of Massachusetts or Maine to file because Patriots' Day (a holiday in those two states) falls on April 17 — the same day that Emancipation Day is being celebrated.

Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 16, 2017) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax! When you file for an extension, you have to

estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Note: *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances you are generally allowed an automatic two-month extension without filing Form 4868, though interest will be owed on any taxes due that are paid after April 18. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, beginning this year, a new law requires the IRS to hold refunds on all tax returns claiming the earned income tax credit or the refundable portion of the Child Tax Credit until at least February 15.¹

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a return.

¹ IRS.gov (IR-2016-117, IRS Urges Taxpayers to Check Their Withholding; New Factors Increase Importance of Mid-Year Check Up, August 31, 2016)

Nexus Financial Network, LLC

David Eppley, deppey@nexusfin.com
Richard Hildebrand,
rhildebrand@nexusfin.com
5000 Brooktree Road Suite 101
Wexford, PA 15090
724-934-1800
lpowdrell@nexusfin.com
www.gonexus.com

Greetings,

Once tax season is over, you might have files and documents that you would like to have safely shredded. Well, it's time again for our annual free client shredding program. Bring your shredding to our Wexford office anytime during business hours from April 26th through May 4th. We are again using Shred-it for safe, certified on-site shredding. It's a good time to do some spring cleaning (or maybe winter cleaning with this crazy weather!) for all your financial documents. Look for a future notice listing how long you should retain documents to help with that spring cleaning.

The NEXUS Team

March 2017

Why Diversification Matters

Buying a Fuel-Efficient Vehicle

Do I need to file a gift tax return?

Will I owe income taxes when I sell my home?



Why Diversification Matters



Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

When investing, particularly for long-term goals, there is one concept you will likely hear about over and over again — diversification. Why is diversification so important? The simple reason is that it helps ensure that your risk of loss is spread among a number of different investments. The theory is that if some of the investments in your portfolio decline in value, others may rise or hold steady, helping to offset the losses.

Diversifying within asset classes

For example, say you wanted to invest in stocks. Rather than investing in just domestic stocks, you could diversify your portfolio by investing in foreign stocks as well. Or you could choose to include the stocks of different size companies (small-cap, mid-cap, and/or large-cap stocks).

If your primary objective is to invest in bonds for income, you could choose both government and corporate bonds to potentially take advantage of their different risk/return profiles. You might also choose bonds of different maturities, because long-term bonds tend to react more dramatically to changes in interest rates than short-term bonds. As interest rates rise, bond prices typically fall.

Investing in mutual funds

Because mutual funds invest in a mix of securities chosen by a fund manager to pursue the fund's stated objective, they can offer a certain level of "built-in" diversification. For this reason, mutual funds may be an appropriate choice for novice investors or those wishing to take more of a hands-off approach to their portfolios. Including a variety of mutual funds with different objectives and securities in your portfolio will help diversify your holdings that much more.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Diversifying among asset classes

You might also consider including a mix of different types of asset classes — stocks, bonds, and cash — in your portfolio. Asset allocation is a strategic approach to diversifying your portfolio. After carefully considering your investment goals, time horizon, and risk tolerance, you would then invest different percentages of your portfolio in targeted asset classes to pursue your goal.

Winning asset classes over time

The following table, which shows how many times during the past 30 years each asset class has come out on top in terms of performance, helps illustrate why diversifying among asset classes can be important.

	Number of winning years, 1987-2016
Cash	3
Bonds	5
Stocks	10
Foreign stocks	12

Performance is from December 31, 1986, to December 31, 2016. Cash is represented by Citigroup 3-month Treasury Bill Index. Bonds are represented by the Citigroup Corporate Bond Index, an unmanaged index. Stocks are represented by the S&P 500 Composite Price Index, an unmanaged index. Foreign stocks are represented by the MSCI EAFE Price Index, an unmanaged index. Investors cannot invest directly in any index. However, these indexes are accurate reflections of the performance of the individual asset classes shown. Returns reflect past performance and should not be considered indicative of future results. The returns do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing.

The principal value of cash alternatives may fluctuate with market conditions. Cash alternatives are subject to liquidity and credit risks. It is possible to lose money with this type of investment.

The return and principal value of stocks may fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, whereas corporate bonds are not. The principal value of bonds may fluctuate with market conditions. Bonds are subject to inflation, interest rate, and credit risks. Bonds redeemed prior to maturity may be worth more or less than their original cost.

The risks associated with investing on a worldwide basis include differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country.

Investments offering the potential for higher rates of return also involve higher risk.



Fuel-efficient vehicles are designed to help reduce pollution emissions and fossil fuel dependence, which can limit the effects of climate change. These factors make fuel-efficient vehicles appealing to drivers looking to be more green. But there are pros and cons to consider before buying an electric or hybrid car.

Buying a Fuel-Efficient Vehicle

You're searching for a new car and interested in fuel-efficient vehicles. On the surface, they sound like a good idea: You may save money by making fewer trips to the gas station, and you'll help protect the environment. However, there are pros and cons to owning and driving a fuel-efficient vehicle, particularly when it comes to your finances.

Know your options

Many different vehicles fall into the fuel-efficient category. There are electric vehicles (EVs), which run solely on electricity. One or more electric motors are powered by rechargeable battery packs. Some EVs have built-in chargers, whereas others must be plugged into external chargers. EVs produce zero emissions and run quietly.

Another kind of fuel-efficient vehicle is the traditional hybrid, which exists in two forms: parallel and series. Parallel hybrids have a small internal combustion engine as well as batteries that power an electric motor. The vehicle's transmission and wheels can be powered by both the engine and electric motor. Series hybrids use an on-board generator to produce electricity which, in turn, charges batteries or powers the electric motor. The vehicle is never directly powered by the gasoline engine.

Plug-in hybrids are very similar to traditional hybrids, but plug-ins rely on a different primary energy source. The battery-powered electric motor functions as the main source of power. When the battery reaches a certain level, the internal engine's power kicks in and the vehicle uses gasoline to extend its range. The battery is recharged by plugging the vehicle into an external charger, hence the name.

In addition to EVs and hybrids, vehicles that run on alternative fuel are also considered fuel-efficient. Alternative fuels include diesel, bio-diesel, ethanol, compressed natural gas, and hydrogen fuel cells.

Weigh the advantages against the disadvantages

One of the biggest factors in deciding whether to buy a fuel-efficient vehicle is cost. Generally, fuel-efficient vehicles come with a higher purchase price that can be off-putting when comparing them to standard vehicles. And if your fuel-efficient car is equipped with an expensive battery, you must be prepared to pay even more when the battery eventually needs to be replaced.

Other drawbacks include scarcity of public chargers, limited driving range, and fewer model options to choose from (as opposed to traditional vehicles).

On the other hand, driving a green vehicle could add some green to your wallet. Many EVs and hybrids qualify for a federal income tax credit. Depending on your vehicle's battery capacity, you could earn a credit ranging from \$2,500 up to \$7,500. However, certain restrictions do apply. For more information, see IRS Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit.

Your auto insurance provider may also offer discounts if you drive an EV or hybrid. It's worth checking to see whether you will save on insurance by driving a fuel-efficient vehicle.

Chances are good that a fuel-efficient vehicle will save you money at the gas station. Fuel-efficient vehicles typically have superior fuel economy, which means you'll likely be taking fewer trips to refuel your car. Over time, the savings from reduced gas station stops could be significant.

Decide what suits your lifestyle

Financial considerations aside, think about what kind of car best fits your needs. To help decide, ask yourself these questions:

- Can you afford a more expensive fuel-efficient vehicle, or does it make more sense to buy a conventional vehicle?
- How much driving do you do in a typical week?
- Do you want an EV or a hybrid? Or do you want to consider an alternative fuel option?
- If you choose an EV or plug-in, are you able to charge it at home? If you frequently drive longer distances, will you be able to recharge it easily on the road?
- When will you need to replace the battery in your vehicle? How expensive will it be?
- What kind of gas mileage should you expect to get from an EV or hybrid?
- Are there any reliability or safety issues associated with EVs or hybrids?

If you don't drive your vehicle on a consistent basis, you might consider sticking with a conventional vehicle. For example, after just one week of not driving an EV or hybrid vehicle, the battery could be affected and may not function properly.

Nexus Financial Network, LLC

David Eppley,
deppey@nexusfin.com
Richard Hildebrand,
rhildebrand@nexusfin.com
5000 Brooktree Road Suite 101
Wexford, PA 15090
724-934-1800
lpowdrell@nexusfin.com
www.gonexus.com

Securities and Advisory Services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Adviser.

Nexus Financial Network, LLC does not provide legal or tax advice. You should consult a legal or tax professional regarding your individual situation.

Fixed insurance products and services are offered by Nexus Financial Network, LLC



Do I need to file a gift tax return?

If you transfer money or property to anyone in any year without receiving something of at least equal value in return, you may need to file a federal

gift tax return (Form 709) by the April tax filing deadline. If you live in one of the few states that also impose a gift tax, you may need to file a separate gift tax return with your state as well.

Not all gifts, however, are treated the same. Some gifts aren't taxable and generally don't require a gift tax return. These exceptions include:

- Gifts to your spouse that qualify for the marital deduction
- Gifts to charities that qualify for the charitable deduction (Filing is not required as long as you transfer your entire interest in the property to qualifying charities. However, if you are required to file a return to report gifts to noncharitable beneficiaries, all charitable gifts must be reported as well.)
- Qualified amounts paid on someone else's behalf directly to an educational institution for tuition or to a provider for medical care

- Annual exclusion gifts totaling \$14,000 or less for the year to any one individual (However, you must file a return to split gifts with your spouse if you want all gifts made by either spouse during the year treated as made one-half by each spouse — enabling you and your spouse to effectively use each other's annual exclusion.)

If your gift isn't exempt from taxation, you'll need to file a gift tax return. But that doesn't mean you have to pay gift tax. Generally, each taxpayer is allowed to make taxable gifts totaling \$5,490,000 (in 2017, up from \$5,450,000 in 2016) over his or her lifetime before paying any gift tax. Filing the gift tax return helps the IRS keep a running tab on the taxable gifts you have made and the amount of the lifetime exclusion you have used.

If you made a gift of property that's hard to value (e.g., real estate), you may want to report the gift, even if you're not required to do so, in order to establish the gift's taxable value. If you do, the IRS generally has only three years to challenge the gift's value. If you don't report the gift, the IRS can dispute the value of your gift at any time in the future.



Will I owe income taxes when I sell my home?

In general, when you sell your home, any amount you receive over your cost basis (what you paid for the home, plus capital improvements, plus the costs

of selling the home) is subject to capital gains taxes. However, if you owned and used the home as your principal residence for a total of two out of the five years before the sale (the two years do not have to be consecutive), you may be able to exclude from federal income tax up to \$250,000 (up to \$500,000 if you're married and file a joint return) of the capital gain when you sell your home. You can use this exclusion only once every two years, and the exclusion does not apply to vacation homes and pure investment properties.

For example, Mr. and Mrs. Jones bought a home 20 years ago for \$80,000. They've used it as their principal residence ever since. This year, they sell the house for \$765,000, realizing a capital gain of \$613,000 (\$765,000 selling price minus a \$42,000 broker's fee, minus the original \$80,000 purchase price, minus \$30,000 worth of capital improvements they've made over the years). The Joneses, who file jointly and are in the 28% marginal tax bracket, can

exclude \$500,000 of capital gain realized on the sale of their home. Thus, their tax on the sale is only \$16,950 (\$613,000 gain minus the \$500,000 exemption, multiplied by the 15% long-term capital gains tax rate).

What if you don't meet the two-out-of-five-years requirement? Or you used the capital gain exclusion within the past two years for a different principal residence? You may still qualify for a partial exemption, assuming that your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances.

Special rules may apply in the following cases:

- You sell vacant land adjacent to your residence
- Your residence is owned by a trust
- Your residence contained a home office or was otherwise used for business purposes
- You rented part of your residence to tenants
- You owned your residence jointly with an unmarried taxpayer
- You sell your residence within two years of your spouse's death
- You're a member of the uniformed services