



Keystone Financial Partners

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Spring 2017

Key Retirement and Tax Numbers for 2017

Why Diversification Matters

What happens to my property if I die without a will?

Will I owe income taxes when I sell my home?

Spring 2017

SPRING HAS ARRIVED!

We welcome the warmer temperatures and sunny days. Let us know if you have any fun trips or plans for this spring. We always like to hear about happenings with our clients. We hope you enjoy this newsletter and learn about events and happenings with our firm.

NEW SECURE MESSAGING SERVICE THROUGH INVESTOR360®

Have you ever needed to send our office an email with confidential information, like your full Social Security Number or full Account Number, or needed to attach a document with that information? Now there is an easier way to email that information to us in a secure environment using **Investor360® Messages**.

If you already use Investor360® to view your accounts online, you'll see a new "Message" tab. Use that tool to send us secure messages.

If you don't currently use Investor360®, contact our office to get set-up with a log in to access your accounts online. There are so many great features you'll want to start using right away in addition to this new secure messaging service. With Investor360®, you can get an executive summary of your financial life. You can get a quick breakdown of the balances in all of your accounts, even adding accounts that are not managed with Keystone Financial Partners. You are able to view trade confirmations, account statements and tax documents.

All other general or non-private messages can be sent to our office the way you always have, using your regular email service to info@keystonefinancialpartners.com or any specific team members' email address.

CHRIS WALSH TRANSITIONING TO ASSOCIATE WEALTH MANAGER

Many of you already know Chris Walsh. He joined our firm in March 2010 and has over 10 years' experience working in the financial industry. Chris became a CFP® in November 2012 and has been gradually transitioning to be an Associate Wealth Manager.

Having recently completed a yearlong mentoring program with Jim, Chris can now work with clients directly. He has created a special program within Keystone Financial Partners called Wealth Wise. Wealth Wise is designed to provide young professionals access to financial planning with flexible options.

If you know of someone that does not meet Jim's investment minimums but would still benefit from a financial planning relationship, perhaps your adult children or family friends, please let us know! Chris would be happy to contact them to discuss their situation and review the flexible options we have available to help them get started with their financial plan.

6TH ANNUAL "SHRED" EVENT

The Thursday after tax-day, April 20, plan to come by our office for a fun spring event. Bring your confidential documents to our office to take advantage of our professional shredding services. Stay and enjoy some shredded bar-b-que from Danny's Barbeque and tour our office space.

When: Thursday, April 20, 11:30 am - 2 pm
Where: Our Office at 1255 Crescent Green, Suite 440, Cary
RSVP: 919-463-0018,
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Key Retirement and Tax Numbers for 2017



Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2017.

Retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$18,000 in compensation in 2017 (the same as in 2016); employees age 50 and older can defer up to an additional \$6,000 in 2017 (the same as in 2016).
- Employees participating in a SIMPLE retirement plan can defer up to \$12,500 in 2017 (the same as in 2016), and employees age 50 and older will be able to defer up to an additional \$3,000 in 2017 (the same as in 2016).

IRAs

The limit on annual contributions to an IRA remains unchanged at \$5,500 in 2017, with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2016	2017
Single/head of household (HOH)	\$61,000 - \$71,000	\$62,000 - \$72,000
Married filing jointly (MFJ)	\$98,000 - \$118,000	\$99,000 - \$119,000
Married filing separately (MFS)	\$0 - \$10,000	\$0 - \$10,000

Note: The 2017 phaseout range is \$186,000 - \$196,000 (up from \$184,000 - \$194,000 in 2016) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified AGI phaseout ranges for individuals making contributions to a Roth IRA are:

	2016	2017
Single/HOH	\$117,000 - \$132,000	\$118,000 - \$133,000
MFJ	\$184,000 - \$194,000	\$186,000 - \$196,000
MFS	\$0 - \$10,000	\$0 - \$10,000

Estate and gift tax

- The annual gift tax exclusion remains at \$14,000.
- The gift and estate tax basic exclusion amount for 2017 is \$5,490,000, up from \$5,450,000 in 2016.

Personal exemption

The personal exemption amount remains at \$4,050. For 2017, personal exemptions begin to phase out once AGI exceeds \$261,500 (single), \$287,650 (HOH), \$313,800 (MFJ), or \$156,900 (MFS).

Note: These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2016 threshold amounts were \$259,400 (single), \$285,350 (HOH), \$311,300 (MFJ), and \$155,650 (MFS).

Standard deduction

These amounts have been adjusted as follows:

	2016	2017
Single	\$6,300	\$6,350
HOH	\$9,300	\$9,350
MFJ	\$12,600	\$12,700
MFS	\$6,300	\$6,350

Note: The 2016 and 2017 additional standard deduction amount (age 65 or older, or blind) is \$1,550 for single/HOH or \$1,250 for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Alternative minimum tax (AMT)

AMT amounts have been adjusted as follows:

	2016	2017
Maximum AMT exemption amount		
Single/HOH	\$53,900	\$54,300
MFJ	\$83,800	\$84,500
MFS	\$41,900	\$42,250
Exemption phaseout threshold		
Single/HOH	\$119,700	\$120,700
MFJ	\$159,700	\$160,900
MFS	\$79,850	\$80,450
26% on AMTI* up to this amount, 28% on AMTI above this amount		
MFS	\$93,150	\$93,900
All others	\$186,300	\$187,800

*Alternative minimum taxable income

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.

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What happens to my property if I die without a will?

If you die without a will, your property will generally pass according to state law (under the rules for intestate succession). When this

happens, the state essentially makes a will for you. State laws specify how your property will pass, typically in certain proportions to various persons related to you. The specifics, however, vary from state to state.

Most state laws favor spouses and children first. For example, a typical state law might specify that your property pass one-half or one-third to your surviving spouse, with the remainder passing equally to all your children. If you don't have children, in many states your spouse might inherit all of your property; in other states, your spouse might have to share the property with your brothers and sisters or parents.

But not all property is transferred by will or intestate succession. Regardless of whether you have a will, some property passes automatically to a joint owner or to a designated beneficiary. For example, you can transfer property such as IRAs, retirement plan benefits,

and life insurance by naming a beneficiary.

Property that you own jointly with right of survivorship will pass automatically to the surviving owners at your death. Property held in trust will pass to your beneficiaries according to the terms you set out in the trust.

Only property that is not transferred by beneficiary designation, joint ownership, will, or trust passes according to intestate succession. You should generally use beneficiary designations, joint ownership, wills, and trusts to control the disposition of your property so that you, rather than the state, determine who receives the benefit of your property.

Even if it seems that all your property will be transferred by beneficiary designation, joint ownership, or trust, you should still generally have a will. You can designate in the will who will receive any property that slips through the cracks.

And, of course, you can do other things in a will as well, such as name the executor of your estate to carry out your wishes as specified in the will, or name a guardian for your minor children.



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