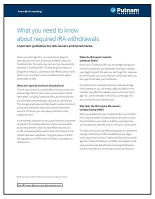
10 ways to help you build your business into 2017

As the year-end approaches, consider contacting clients with these timely planning ideas.

1. Review required minimum distributions (RMDs) with clients

Since many investors typically request distributions from retirement accounts annually in December to satisfy minimum distribution requirements, it is a good idea to contact clients now to make sure they are on track. The Internal Revenue Service has specific rules for taking RMDs. In fact, the penalty for not taking a required distribution is steep: 50% of the required amount. Having a conversation about RMDs may also lead to identifying stray retirement accounts for consolidation.



What you need to know about required IRA withdrawals – IR704

Grandparents not relying on income from RMDs may also be interested in using those funds to establish a 529 savings account for grandchildren. For charitably-minded clients, there may also be an opportunity to avoid taxes on RMDs if those distributions are sent directly to a qualified charity.

Donating IRA assets to a charity – II828

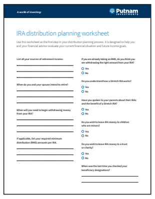
2. Identify opportunities to harvest tax losses

Tax-rate increases combined with new health-care-related taxes make smart tax planning more critical. In the process of reviewing portfolios, are there opportunities to strategically generate losses to offset other gains? For example, using a tax swap strategy for mutual fund holdings.

Using investment losses to your advantage – II867

3. Conduct annual beneficiary reviews

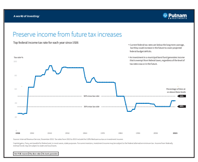
This is a great way not only to help your clients avoid potential pitfalls, but also to uncover other retirement accounts for consolidation. Clients who own IRAs that will not be used for retirement income should consider treating the account as a "Stretch IRA," ensuring that the tax-deferred income benefits extend to future generations.



Stretch IRA – IR705; IRA planning worksheet – IR666

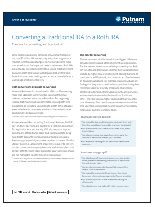
4. Contact clients before the end of the year to discuss the benefit of converting to a Roth IRA

Your clients are likely aware of the benefits of Roth IRAs: tax-free withdrawals in retirement, no required minimum distributions, and the option to leave an income-tax–free legacy to the next generation. Although tax rates have increased recently for some taxpayers, a Roth IRA conversion may still make sense. For example, income for many individuals can vary substantially from year to year such as with sales professionals or executives who receive bonuses. Completing "tactical" Roth IRA conversions when income is lower can put these clients in a better position to manage their tax bill in retirement. Additionally, with increasing federal budget deficits and concerns regarding the strength of entitlement programs like Social Security, it is conceivable that tax rates may be higher in the future.



Historical tax rate chart – SU516

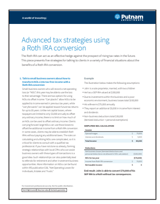
For clients who are hesitant to convert because of the potential negative income tax implications or who are simply unsure of the amount to convert, remember that there is always the option of recharacterizing all or part of a Roth IRA conversion before the tax-filing deadline without incurring additional taxes or penalty.



Converting a Traditional IRA to a Roth IRA – IR757

5. Talk to small-business owners about how to transform net operating losses (NOLs) into tax-free income with a Roth IRA conversion

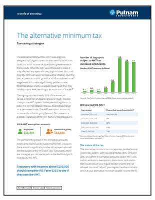
Small-business owners who will record a net operating loss this year may be able to use it to their advantage. NOLs may be carried forward to offset ordinary income on future tax returns. Unlike net capital losses, where taxpayers are limited to using only $3,000 annually to offset any ordinary income, there is no limit on how much of an NOL can be used to offset ordinary income. Clients carrying forward large NOLs can use those losses to offset the additional income from a Roth IRA conversion. The rules on calculating and utilizing NOLs are complicated, so it is critical for clients to consult with a qualified tax professional. Forming strategic relationships with local CPAs who can assist business owners with these types of transactions is a good idea. Such relationships can also potentially lead to referrals for retirement and other investment business opportunities. More information on NOLs can be found within IRS publication 536, "Net Operating Losses for Individuals, Estates and Trusts."



Advanced tax strategies using a Roth IRA conversion – SI615

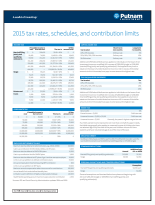
6. Discuss strategies to help offset the alternative minimum tax (AMT)

Although tax legislation signed into law at the beginning of 2013 prevented a dramatic expansion of the AMT, roughly 4 million taxpayers will still owe AMT with an average tax bill of roughly $6,600. There are a variety of strategies that can help clients avoid or minimize the impact of the AMT, including deferring certain tax deductions, being careful when exercising stock options, or avoiding exposure to private activity bonds.



The alternative minimum tax: Tax-saving strategies – II800

Clients should also consider adding tax-free investments to their portfolios. Putnam's tax-free municipal bond lineup offers a broad range of funds, a prudent approach to risk, and competitive performance with minimal or no exposure to the AMT.



2016 tax rate schedules – II941

7. Update affluent clients and prospects on the current estate tax rules

Are clients and prospects aware of current estate and gift tax laws? Year-end provides an opportunity to review existing estate plans and consider gifting strategies. The annual gift tax exclusion for individuals is $14,000, and the lifetime gift tax exemption is $5.45 million for 2016. High-net-worth clients and families may wish to consult with an attorney on more sophisticated gifting strategies, such as Family Limited Partnerships (FLPs), Dynasty Trusts, or Grantor Retained Annuity Trusts (GRATs).

A closer look at the gifting and estate tax rules – II546

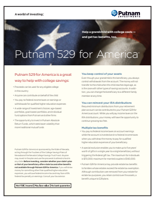
8. Consider mutual funds with tax-loss carryforwards to help reduce potential capital gains taxes

Investors using taxable accounts may be able to use an effective strategy to help reduce their tax liability. Some mutual funds have embedded historical capital losses that can be used to offset current or future capital gains distributions that can increase a client's tax burden. Help your clients facing potential capital gains by identifying funds that have tax-loss carryforwards.

Find even more at putnamwealthmanagement.com, including legislative updates and new business-building ideas.

9. Discuss year-end gifting strategies using 529s

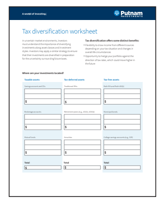
Remind key clients, such as grandparents, that the annual gifting limit for 2016 is $14,000, and that a special 529-plan exclusion allows five years' worth of gifts — up to $70,000 or $140,000 for married couples — to be contributed at once, provided that no other gifts are made within the next five-year period. And there's also an added benefit for grandparents who own 529s — these assets are not currently factored as assets for determining federal financial aid.



Want to help a grandchild with college costs? – ED106

10. Talk to your clients about diversifying their tax liabilities

During client reviews, consider grouping clients' investments into three categories: taxable, tax deferred, and tax free. For many, this exercise may illustrate that they are "overweight" in one area, namely traditional, tax-deferred retirement accounts. Many clients could benefit from increasing their allocations to tax-free vehicles by investing in municipal bonds or by converting an account to a Roth IRA.



Tax diversification worksheet – II905

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