Ingram FINANCIAL GROUP
Wealth Management | Investments | Insurance

INGRAM INSIGHTS Newsletter
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.

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.

401(k) Withdrawals: Beware the Penalty Tax

You've probably heard that if you withdraw taxable amounts from your 401(k) or 403(b) plan before age 59½, you may be socked with a 10% early distribution penalty tax on top of the federal income taxes you'll be required to pay. But did you know that the Internal Revenue Code contains quite a few exceptions that allow you to take penalty-free withdrawals before age 59½?

Sometimes age 59½ is really age 55...or age 50

If you've reached age 55, you can take penalty-free withdrawals from your 401(k) plan after leaving your job if your employment ends during or after the year you reach age 55. This is one of the most important exceptions to the penalty tax.

And if you're a qualified public safety employee, this exception applies after you've reached age 50. You're a qualified public safety employee if you provided police protection, firefighting services, or emergency medical services for a state or municipality, and you separated from service in or after the year you attained age 50.

Continued on next page...

Be careful though. This exception applies only after you leave employment with the employer that sponsored the plan making the distribution. For example, if you worked for Employer A and quit at age 45, then took a job with Employer B and quit at age 55, only distributions from Employer B's plan would be eligible for this exception. You'll have to wait until age 59½ to take penalty-free withdrawals from Employer A's plan, unless another exception applies.

Think periodic, not lump sums

Another important exception to the penalty tax applies to "substantially equal periodic payments," or SEPPs. This exception also applies only after you've stopped working for the employer that sponsored the plan. To take advantage of this exception, you must withdraw funds from your plan at least annually based on one of three rather complicated IRS-approved distribution methods.

Regardless of which method you choose, you generally can't change or alter the payments for five years or until you reach age 59½, whichever occurs later. If you do modify the payments (for example, by taking amounts smaller or larger than required distributions or none at all), you'll again wind up having to pay the 10% penalty tax on the taxable portion of all your pre-age 59½ SEPP distributions (unless another exception applies).

And more exceptions...

Distributions described below generally won't be subject to the penalty tax even if you're under age 59½ at the time of the payment.

Distributions from your plan up to the amount of your unreimbursed medical expenses for the year that exceed 10% of your adjusted gross income for that year (You don't have to itemize deductions to use this exception, and the distributions don't have to actually be used to pay those medical expenses.)

Distributions made as a result of your qualifying disability (This means you must be unable to engage in any "substantial gainful activity" by reason of a "medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration.")

Certain distributions to qualified military reservists called to active duty

Distributions made pursuant to a qualified domestic relations order (QDRO)

Distributions made to your beneficiary after your death, regardless of your beneficiary's age

Keep in mind that the penalty tax applies only to taxable distributions, so tax-free rollovers of retirement assets are not subject to the penalty. Also note that the exceptions applicable to IRAs are similar to, but not identical to, the rules that apply to employer plans.

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

[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)*

Ingram FINANCIAL GROUP
Wealth Management | Investments | Insurance

Winter Haven | 799 Overlook Drive | Phone 863-326-9833 | Toll Free 800-425-8242 | Fax 863-875-1855
Online | www.ingramfinancialgroup.com