JANUARY 2020

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS

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President's Address

DECIDING WHEN TO RETIRE: WHEN TIMING BECOMES CRITICAL

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THINKING ABOUT EARLY RETIREMENT?

Retiring early means fewer earning years and less accumulated savings. Also, the earlier you retire, the more years you'll need your retirement savings to produce income, and your retirement could last quite a while. According to a National Vital Statistics Report, people today can expect to live more than 30 years longer than they did a century ago. This is a question that I get asked by clients every week.

Not only will you need your retirement savings to last longer, but inflation will have more time to eat away at your purchasing power. If inflation is 3% a year — its historical average since 1914 — it will cut the purchasing power of a fixed annual income in half in roughly 23 years. Factoring inflation into the retirement equation, you'll probably need your retirement income to increase each year just to cover the same expenses. Be sure to take this into account when considering how long you expect (or can afford) to be in retirement.

CURRENT LIFE EXPECTANCY ESTIMATES

	Men	Women
At birth	**76.1**	**81.1**
At age 65	**83.1**	**85.6**

Source: NCHS Data Brief, Number 328, Nov. 2018

There are other considerations as well. For example, if you expect to receive pension payments, early retirement may adversely affect them. Why? Because the greatest accrual of benefits generally occurs during your final years of employment, when your earning power is presumably highest.

Early retirement could reduce your monthly benefits. It will affect your Social Security benefits too.

Also, don't forget that if you hope to retire before you turn 59½ and plan to start using your 401(k) or IRA savings right away, you'll generally pay a 10% early withdrawal penalty plus any regular income tax due (with some exceptions, including disability payments and distributions from employer plans such as 401(k)s after you reach age 55 and terminate employment).

Finally, you're not eligible for Medicare until you turn 65. Unless you'll be eligible for retiree health benefits through your employer or take a job that offers health insurance, you'll need to calculate the cost of paying for insurance or health care out-of-pocket, at least until you can receive Medicare coverage.

DELAYING RETIREMENT

Postponing retirement lets you continue to add to your retirement savings. That's especially advantageous if you're saving in tax-deferred accounts, and if you're receiving employer contributions. For example, if you retire at age 65 instead of age 55, and manage to save an additional $20,000 per year at an 8% rate of return during that time, you can add an extra $312,909 to your retirement fund. (This is a hypothetical example and is not intended to reflect the actual performance of any specific investment.)

Even if you're no longer adding to your retirement savings, delaying retirement postpones the date that you'll need to start withdrawing from them. That could enhance your nest egg's ability to last throughout your lifetime.

Postponing full retirement also gives you more transition time. If you hope to trade a full-time job for running your own small business or launching a new career after you "retire," you might be able to lay the groundwork for a new life by taking classes at night or trying out your new role part-time. Testing your plans while you're still employed can help you anticipate the challenges of your post-retirement role. Doing a reality check before relying on a new endeavor for retirement income can help you see how much income you can realistically expect from it. Also, you'll learn whether it's something you really want to do before you spend what might be a significant portion of your retirement savings on it. We have seen a big increase in folks phasing out of the workforce over time and not all at once.

PHASED RETIREMENT: THE BEST OF BOTH WORLDS

Some employers have begun to offer phased retirement programs, which allow you to receive all or part of your pension benefit once you've reached retirement age, while you continue to work part-time for the same employer.

Phased retirement programs are getting more attention as the baby boomer generation ages. In the past, pension law for private sector employers encouraged workers to retire early. Traditional pension plans generally weren't allowed to pay benefits until an employee either stopped working completely or reached the plan's normal retirement age (typically age 65). This frequently encouraged employees who wanted a reduced workload but hadn't yet reached normal retirement age to take early retirement and go to work elsewhere (often for a competitor), allowing them to collect both a pension from the prior employer and a salary from the new employer.

(CONTINUE READING ON PAGE 4)

Robert Carpenter

PHOTO: Peacham, VT, population 722 (2017) is a small town in Caledonia County. It has been said that Peacham is the most photographed town in New England.

(CONT'D FROM PAGE 3) Deciding When to Retire: When Timing Becomes Critical

However, pension plans now are allowed to pay benefits when an employee reaches age 62, even if the employee is still working and hasn't yet reached the plan's normal retirement age. Phased retirement can benefit both prospective retirees, who can enjoy a more flexible work schedule and a smoother transition into full retirement; and employers, who are able to retain an experienced worker. Employers aren't required to offer a phased retirement program, but if yours does, it's worth at least a review to see how it might affect your plans.

HAVE BWFA CHECK YOUR ASSUMPTIONS

The sooner you start to plan the timing of your retirement, the more time you'll have to make adjustments that can help ensure those years are everything you hope for. If you've already made some tentative assumptions or choices, you may need to revisit them, especially if you're considering taking retirement in stages. As you move into retirement, you'll want to monitor your retirement income plan to ensure that your initial assumptions are still valid, that new laws and regulations haven't affected your situation, and that your savings and investments are performing as you need them to. At BWFA we will run projections, review your 401k options, tax implications, review your insurance policies, review Social Security options, Medicare options & Long Term Care. We feel this is one of the most important times in our clients lives and we want you to be prepared for the next chapter which will be very rewarding and less stressful if planned early. Call us to set up an appointment to review your retirement.

KEY DECISION POINTS

	AGE	DON'T FORGET ...
Eligible to tap tax-deferred savings without penalty for early withdrawal	59 ½*	Federal income taxes will be due on pretax contributions and earnings
Eligible for early Social Security benefits	62	Taking benefits before full retirement age reduces each monthly payment
Eligible for Medicare	65	Contact Medicare 3 months before your 65th birthday
Full retirement age for Social Security	66 to 67, depending on when you were born	After full retirement age, earned income no longer affects Social Security benefits

**Age 55 for distributions from employer plans upon termination of employment*

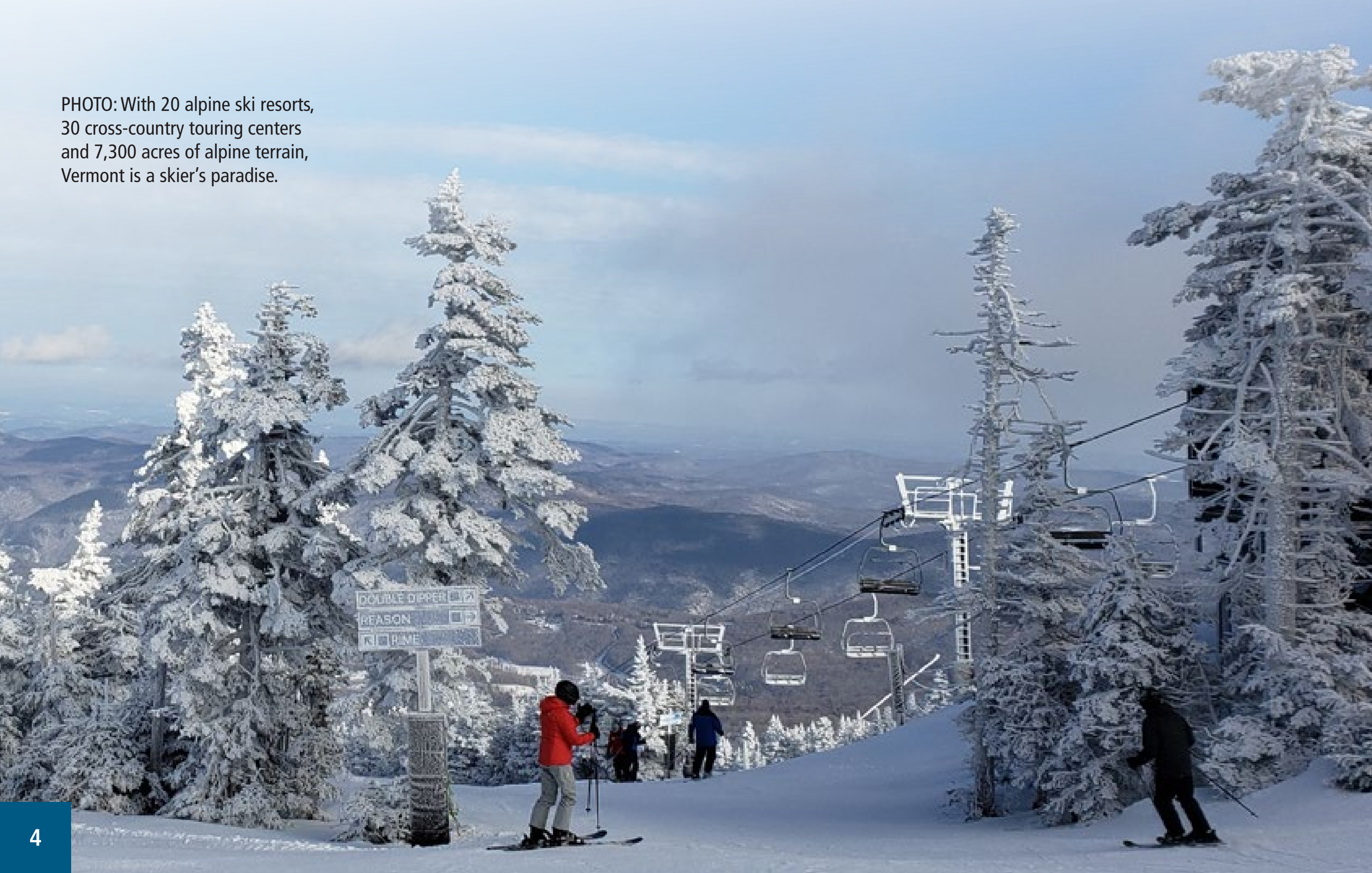


PHOTO: With 20 alpine ski resorts, 30 cross-country touring centers and 7,300 acres of alpine terrain, Vermont is a skier's paradise.

COVER PHOTO: Gold Brook Covered Bridge, Stowe, VT

Do you know someone WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

MAYBE YOU KNOW SOMEONE WHO IS RETIRED OR NEARING RETIREMENT AND COULD BENEFIT FROM OUR SERVICES?

WE ASK YOU, OUR EXISTING CLIENTS, TO RECOMMEND OUR SERVICES TO FRIENDS OR FAMILY MEMBERS THAT COULD BENEFIT FROM OUR SUPPORT.

BY HELPING US GROW OUR "FAMILY OF CLIENTS," WE GET TO SHARE OUR PASSION WITH MORE PEOPLE JUST LIKE YOU.

PLEASE CONTACT MEGHAN AT MMANAS@BWFA.COM

JANUARY 2020 TABLE OF CONTENTS

BWFA

PODCAST

HEALTHY WEALTHY & WISE

BWFA will be hosting a new Podcast!
We'll be covering everything from finance, investments and taxes, to wellness, health and mindfulness.

COMING EARLY 2020

Deepen Your State of Relaxation

WITH DAGMAR BOHLMANN, CERTIFIED YOGA TEACHER
JANUARY 28, 2020 • 11:45 A.M. TO 1:00 P.M.

BWFA

BOOK CLUB

Eve Kennedy's
BWFA BOOK NOOK

IT HAS BEEN A TRUE PLEASURE RUNNING THE BWFA BOOK CLUB!

If you are interested in joining, please keep your eye out for the invitations and register. The more the merrier! I have enjoyed seeing the group grow, learning more about each of our clients and watching them interact and get to know one other. During each meeting, our members share books that they have read, are currently reading or are next in line to read, I wanted to share these suggestions with everyone. It's a wonderful list! **If you have any suggestions you would like to add to the list, please email me at ekennedy@bwfa.com. Happy Reading!**

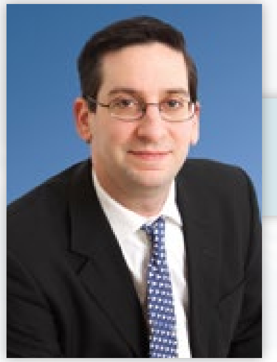
What the Eyes Don't See
by Mona Hanna-Attisha
Cellist of Sarajevo
by Steven Galloway
Killer of the Flower Moon
by David Grann
Finding Dorothy
by Elizabeth Letts
Lincoln in the Bardo
by George Saunders

Darkness at Noon
by Arthur Koestler
Beneath a Marble Sky
by John Shors
The Elegance of the Hedgehog
by Muriel Barbery
Before We Were Yours
by Lisa Wingate
Sourdough
by Robin Sloan

Hidden Figures
by Margot Lee Shetterly
Half of a Yellow Sun
by Chimamanda Ngozi Adichie
All the Light We Cannot See
by Anthony Doerr
The Book Thief
by Markus Zusak
Where the Crawdads Sing
by Delia Owens

Toss of a Lemon
by Padma Viswanathan
Erotic Stories for Punjabi Widows
by Balli Kaur Jaswal
In Carrie's Footprints
by Jack McBride White
All the Ugly and Wonderful Things
by Bryn Greenwood
Dreamland Burning
by Jennifer Latham

Financial Planning



THE JOYS AND FINANCIAL CHALLENGES OF PARENTHOOD

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Parenthood can be both wonderfully rewarding and frighteningly challenging. Children give gifts only a parent can understand — from sticky-finger hugs to heartfelt pleas to tag along on Saturday morning errands. You raise them with a clear goal that you secretly dread will actually take place — that someday they will be grown, independent, and ready to move out on their own, and your work will be over.

As your children travel this long and never-dull road from infancy to adulthood, you try to protect them. You want to make sure that they are financially secure, but meeting expenses can be challenging.

HOW EXPENSIVE IS RAISING A CHILD?

The United States Department of Agriculture estimates that the average nationwide cost of raising one child in a two-parent family from cradle to college entrance at age 18 ranges from $174,690 to $372,210, depending on income. *(Source: Expenditures on Children by Families, 2015, released January 2017, the most recent data available)*

As you raise them and make sure they get a good, strong start in life, one thing is obvious — children are expensive! Fortunately, you can take steps to prepare for the financial challenges you face.

REASSESS YOUR BUDGET

As your family grows, you may need to make changes to your budget. Many living expenses may increase, including grocery, clothing, transportation, health-care, insurance, and housing costs. You may also need to account for new expenses, such as child care, or adjust your budget to account for a decrease in your income, if you decide to become a stay-at-home parent. Your budget may also need to expand to include new financial goals, such as saving for college or buying a home.

Making sure that your budget reflects your new financial priorities can help you stay on track.

REVIEW YOUR LIFE INSURANCE COVERAGE

What would happen to your children if something happened to you? Life insurance is an effective way to protect your family from the uncertainty of premature death. It can help assure that a preselected amount of money will be on hand to replace your income and help your family members — your children and your spouse — maintain their standard of living. With life insurance, you can select an amount that will help your family meet living expenses, pay the mortgage, and even provide a college fund for your children. Best of all, life insurance proceeds are generally not taxable as income. Keep in mind, though, that the cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance.

CONSIDER PURCHASING DISABILITY INCOME INSURANCE

If you become disabled and unable to work, disability income insurance can pay benefits — a specific percentage of your income — so you can continue meeting your financial obligations until you are back on your feet. What about Social Security? If you do become permanently and totally disabled and are unable to do work of any kind, you may be eligible for benefits, but qualifying isn't easy. For more flexible and comprehensive protection, consider buying disability income insurance.

START BUILDING A COLLEGE FUND NOW

According to the College Board, for the 2018/2019 school year, the average cost of one year at a four-year public college is $25,890 (for in-state students), while the average cost for one year at a four-year private college is $52,500 (the total cost of attendance includes tuition and fees, room and board, books and supplies, transportation, and other miscellaneous costs).

Even if those numbers don't go up (and they are expected to continue increasing), that would come to $103,560 for a four-year degree at a public college, and $210,000 at a private university. Oh, and don't forget graduate school.

College costs may seem daunting, especially if you're still paying off your own college loans, but you have about 18 years before your newborn will be a college freshman.

By starting today, you can help your children become debt-free college grads. The secret is to save a little each month, take advantage of compound interest, and have a sum waiting for you when your child is ready for college.

The following chart shows how much money might be available for college when your child turns 18, if you save a certain amount each month.

CHILD'S AGE NOW	$100/MONTH	$200/MONTH	$300/MONTH	$400/MONTH
Newborn	$38,735	$77,471	$116,208	$154,941
4	$26,231	$52,462	$78,693	$104,924
8	$16,388	$32,776	$49,164	$65,552
10	$12,283	$24,566	$36,849	$49,132
14	$5,410	$10,820	$16,230	$21,640
16	$2,543	$5,086	$7,629	$10,172

Table assumes an after-tax return of 6%, compounded monthly. This is a hypothetical example and is not intended to reflect the actual performance of any investment. All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

KEEP SAVING FOR RETIREMENT

Many well-intentioned parents put saving for retirement on hold while they save for their children's college education. But if you do so, you're potentially sacrificing your own financial well-being. If you postpone saving for retirement, you might miss out on years of tax-deferred growth, and it may be hard to catch up later.

Ideally, you'll want to save regularly for both goals. but if you have limited funds, prioritize saving for retirement. Your child may receive financial aid to pay for college, but there's no such option for you.

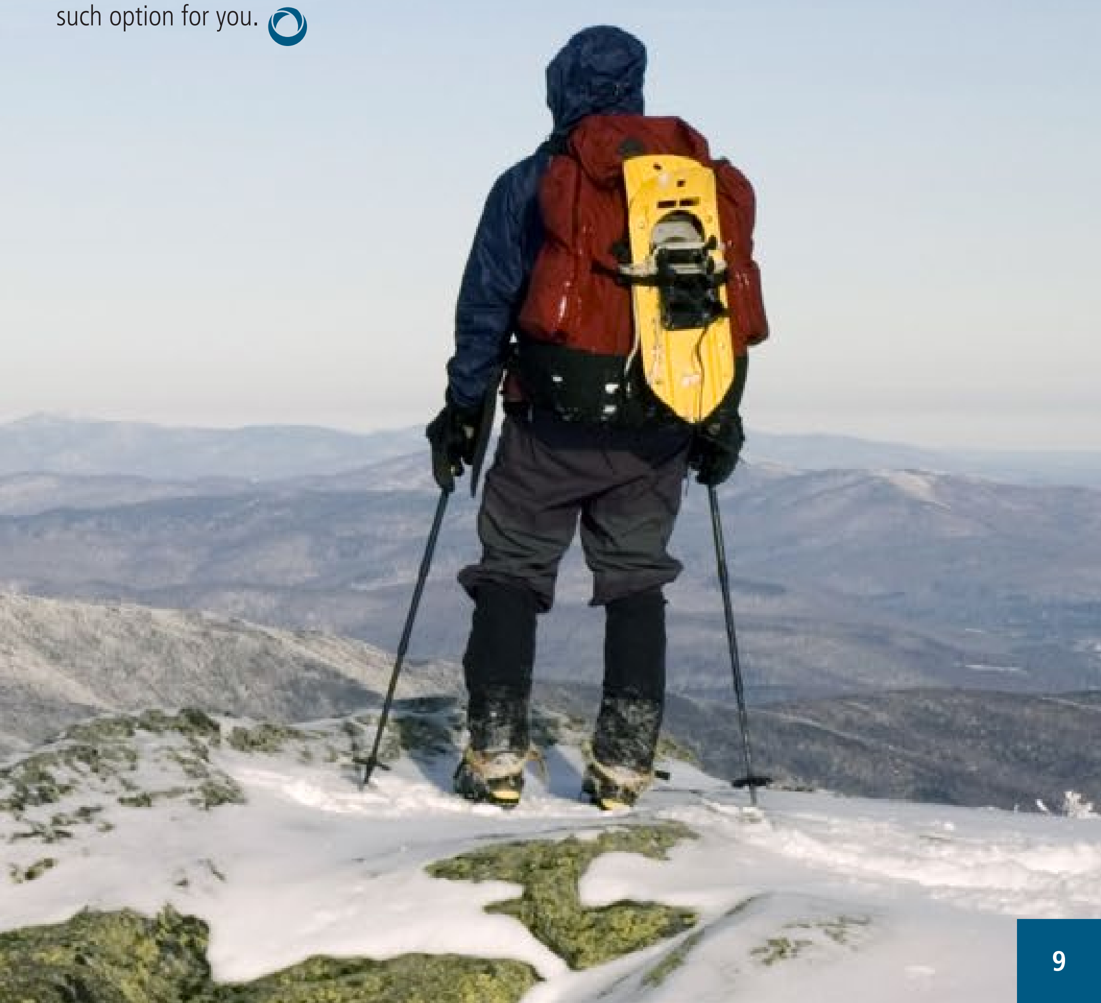

PHOTO: Winter hiking on Mt. Mansfield, the highest mountain in Vermont with a summit that peaks at 4,395 feet above sea level.

Financial Planning

HEALTH INSURANCE IN RETIREMENT

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At any age, health care is a priority. When you retire, however, you will probably focus more on health care than ever before. Staying healthy is your goal, and this can mean more visits to the doctor for preventive tests and routine checkups. There's also a chance that your health will decline as you grow older, increasing your need for costly prescription drugs or medical treatments. That's why having health insurance is extremely important.

RETIREMENT—YOUR CHANGING HEALTH INSURANCE NEEDS

If you are 65 or older when you retire, your worries may lessen when it comes to paying for health care—you are most likely eligible for certain health benefits from Medicare, a federal health insurance program, upon your 65th birthday. But if you retire before age 65, you'll need some way to pay for your health care until Medicare kicks in. Generous employers may offer extensive health insurance coverage to their retiring employees, but this is the exception rather than the rule. If your employer doesn't extend health benefits to you, you may need to buy a private health insurance policy (which may be costly), extend your employer-sponsored coverage through COBRA, or purchase an individual health insurance policy through either a state-based or federal health insurance Exchange Marketplace.

But remember, Medicare won't pay for long-term care if you ever need it. You'll need to pay for that out of pocket or rely on benefits from long-term care insurance (LTCI) or, if your assets and/or income are low enough to allow you to qualify, Medicaid.

MORE ABOUT MEDICARE

As mentioned, most Americans automatically become entitled to Medicare when they turn 65. In fact, if you're already receiving Social Security benefits, you won't even have to apply—you'll be automatically enrolled in Medicare. However, you will have to decide whether you need only Part A coverage (which is premium-free for most retirees) or if you want to also purchase Part B coverage. Part A, commonly referred to as the hospital insurance portion of Medicare, can help pay for your home health care, hospice care, and inpatient hospital care. Part B helps cover other medical care such as physician care, laboratory tests, and physical therapy. You may also choose to enroll in a managed care plan or private fee-for-service plan under Medicare Part C (Medicare Advantage) if you want to pay fewer out-of-pocket health-care costs. If you don't already have adequate prescription drug coverage, you should also consider joining a Medicare prescription drug plan offered in your area by a private company or insurer that has been approved by Medicare.

Unfortunately, Medicare won't cover all of your health-care expenses. For some types of care, you'll have to satisfy a deductible and make co-payments. That's why many retirees purchase a Medigap policy.

WHAT IS MEDIGAP?

Unless you can afford to pay for the things that Medicare doesn't cover, including the annual co-payments and deductibles that apply to certain types of care, you may want to buy some type of Medigap policy when you sign up for Medicare Part B. There are 10 standard Medigap policies available. Each of these policies offers certain basic core benefits, and all but the most basic policy (Plan A) offer various combinations of additional benefits designed to cover what Medicare does not. Although not all Medigap plans are available in every state, you should be able to find a plan that best meets your needs and your budget.

When you first enroll in Medicare Part B at age 65 or older, you have a six-month Medigap open enrollment period. During that time, you have a right to buy the Medigap policy of your choice from a private insurance company, regardless of any health problems you may have. The company cannot refuse you a policy or charge you more than other open enrollment applicants.

THINKING ABOUT THE FUTURE —LONG-TERM CARE INSURANCE AND MEDICAID

The possibility of a prolonged stay in a nursing home weighs heavily on the minds of many older Americans and their families. That's hardly surprising, especially considering the high cost of long-term care.

Many people in their 50s and 60s look into purchasing LTCI. A good LTCI policy can cover the cost of care in a nursing home, an assisted-living facility, or even your own home. But if you're interested, don't wait too long to buy it—you'll need to be in good health. In addition, the older you are, the higher the premium you'll pay. You may also be able to rely on Medicaid to pay for long-term care if your assets and/or income are low enough to allow you to qualify.

PHOTO: Log cabin in Northfield, VT.

Investment Management

WHAT TO DO IN 2020?

JOSEPH MANFREDI
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In a phrase, keep investing in stocks.

At the risk of appearing blindly bullish, this eternal optimist will attempt to provide some context for BWFA's thinking going forward into 2020 and our overall approach to investing for our clients.

As you may imagine, we are cautiously optimistic in our outlook for stocks generally, and our top buy rated stocks specifically, for 2020, as we look forward with what we know now.

WHAT DO WE KNOW NOW?

- U.S.- China trade tensions seem to be easing
- U.S. corporate earnings, dividends, tax conditions and merger activity should be healthy and contribute to stock shares going higher
- Positive environment for the American consumer fueled by accommodative income tax policy and strong job and wage conditions which may be an additional positive contribution to a further run for the stock market
- Anticipation that developed countries abroad will provide stimulus to bring their economies along to contribute to worldwide economic stability and in some cases country economic improvement

WHY THEN BE "CAUTIOUSLY" OPTIMISTIC?

We have been in one of the longest running bull periods of almost 11 years running and it will have to end at some point, so BWFA remains vigilant and looks for those investments that provide long term opportunities for our clients, as a recession will come at some point—that, we know also.

What we do not know is when a recession will arrive. We likewise do not know how long it will last, and we do not know what the stock market will do.

From our research, to approximate what could happen, we found that recessions last on average 9 months, when looking at the last 100 years of recessions. During the 14 recessions we looked at during that time, stocks (as measured by the S&P 500) lost "only" 2.7% on average, and on average there is approximately 4 years between each recession. As important as the downside of the market, if not more so, our research shows that the following year after a recession ends, the market went up over 15% on average in those following 12 months!

So, BWFA will not suggest that we can "time" the arrival or end of a forthcoming recession. Also, we will not do anything drastic in our capacity as investment fiduciaries for our clients.

WHAT DO WE DO NOW?

Since there are mostly strong positive indicators as listed above, BWFA will maintain our target allocations within the BWFA investment model categories, albeit within reasonable target variances to those targeted allocation goals.

Recently there was an "inversion of the yield curve" which can be a recessionary trigger. The yield curve inversion means simply that long term bond interest rates are lower than short term bond interest rates. Many prognosticators predicted the arrival of a recession several months ago when this inversion first occurred. We are still waiting — and since then the market has continued to perform well.

The economy is still healthy but not as healthy as a year or two ago, so hence BWFA's vigilance and cautious optimism.

So, going forward into 2020 we remain committed to our investment models exposure to stocks, particularly those stocks and sectors we like, and will make adjustments as we go forward to address economic and market specific and company specific changes, without emotional or drastic response to the ever changing and repeating cycles in the economy and investment markets.

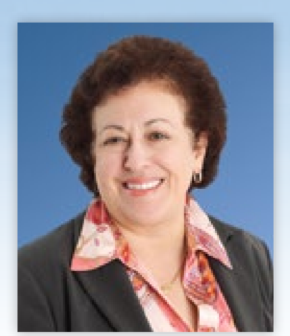
PHOTO: Sunset in the mountains behind the community church in the village of Stowe Vermont.

Meet Your BWFA Tax Team

PHOTO: The Vermont State House is a Greek Revival style built in 1859.

LAWRENCE M. POST
CPA, MST, CFP®, CIMA®
SENIOR TAX AND PLANNING ADVISOR

Larry Post is financial professional dedicated to serving the needs of individuals and families. Prior to joining BWFA, Larry held various positions in Hawthorn, PNC Family Office, PNC Wealth Management, and was a partner with a CPA and financial planning firm. Additionally, he was an instructor of financial planning, and an adjunct professor of accounting and taxation. Larry earned a Bachelor of Science in Business Administration majoring in accounting from Georgetown University, and a Master of Science in Taxation and Certificate as a Tax Specialist from Bentley University. He is currently licensed as a CPA and a Certified Financial Planner™ and Certified Investment Management Analyst™.



ANN GARCZYNSKI
CPA
SENIOR CLIENT ASSOCIATE

Ann Garczynski is a graduate of the University of Baltimore with a Bachelor's Degree in Business Administration and Accounting. Ann has worked at BWFA for many years in both the Tax Services and Client Services departments. She is a native of New York City and began her career as a legal secretary in Manhattan. After moving to Maryland, she worked at the law firm of Weinberg and Green in Baltimore while completing her degree. Her first job after graduation was in the tax department of Deloitte & Touche LLP in their Baltimore office. Ann and her husband reside in Taylorsville, MD.

MATTHEW SMILER
ChFC®
TAX ADVISOR

Matthew is a Chartered Financial Consultant (ChFC) and holds a B.S. in Business from Towson University. Matthew has worked in the accounting and financial advisory industry for close to twelve years. He resides in Baltimore with his wife and enjoys playing basketball, golf and spending time with family and friends.

BRIAN MURRAY
TAX ADVISOR

Brian brings many years of tax experience to BWFA working on both business and individual tax preparation. He is currently working to achieve his Enrolled Agent Certificate. Brian grew up in Boston and recently moved to Silver Spring, MD. He enjoys traveling, food, playing sports and rooting for all of his hometown professional teams.

YUAN ZHANG
CLIENT ASSOCIATE

Yuan Zhang graduated from the University of Maryland where she earned her BS in Accounting. Prior to joining BWFA, Yuan was a staff accountant in a regional CPA firm in Bethesda. Yuan lives in Ellicott City, MD with her husband and two kids. She enjoys cooking and likes to spend time with friends and her family.

GARY TROTTER
TAX ASSOCIATE

Gary has been with BWFA for many years. He graduated from SUNY Stony Brook, NY with a Bachelor's degree in Engineering and then earned a Master's Degree in Business Management from Brooklyn Polytechnic University. Gary is a veteran of the US Navy. He previously worked at Verizon Communications. Currently, he is preparing for the licensing exam to become an Enrolled Agent. Gary lives in Columbia, MD with his wife Michelle. His son Marcel is attending college in Philadelphia, PA. He enjoys reading, road cycling, ocean kayaking, downhill skiing, and camping.

LEX RUYGROK
CPA
TAX CONSULTANT

Lex has worked inside the BWFA tax advisory team for many years. He is a graduate of the University of Virginia and an honors graduate of the University of Maryland School of Law. Lex is a former tax manager at Deloitte and served as a tax director for the personal tax services group of a larger regional accounting firm. In addition to practicing law, Lex teaches personal and business tax classes for the Smith Business School at the University of Maryland. He and his wife Terry like to travel, attend concerts and sporting events and spend time with family and friends.

ANA WELBORN
CPA
TAX CONSULTANT

Ana has been a BWFA tax consultant for several years. She is a graduate of UMBC with a major in financial economics and a minor in accounting. Prior to joining BWFA, Ana was a tax manager at DHG, LLP (formerly Stegman & Co.) working with various types of business entities, individuals, non-profits, and trusts. Ana is a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants. She currently lives in Baltimore, MD and enjoys traveling and spending time with family and friends.

Visit bwfa.com for information on our Tax Services

Tax Services

PERSONAL DEDUCTION PLANNING

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Taxes, like death, are inevitable. But why pay more than you have to? The trick to minimizing your federal income tax liability is to understand the rules and make the most of your tax planning opportunities. Personal deduction planning is one aspect of tax planning. Here, your goals are to use your deductions in the most efficient manner and take all deductions to which you're entitled.

DEDUCTIONS LOWER YOUR TAXABLE INCOME

Your first step is to understand how deductions work. You subtract certain deductions from your total income to arrive at your adjusted gross income (AGI); these deductions are commonly referred to as adjustments to income or as "above-the-line" deductions.

Then, you subtract other deductions and exemptions from your AGI to determine your taxable income; these deductions are sometimes referred to as "below-the- line" deductions. Your tax liability is calculated based on your taxable income. Generally speaking, therefore, the higher your deduction level, the lower your tax liability.

YOU CAN EITHER TAKE A STANDARD DEDUCTION OR ITEMIZE

After you've computed your AGI, you'll generally want to subtract the greater of either the standard deduction or the total of your itemized deductions. The standard deduction is a fixed dollar amount, indexed for inflation yearly, that is determined according to your filing status (e.g., married filing jointly, single) and certain circumstances. Itemized deductions are various deductions that are reported on Schedule A of your federal tax return (Form 1040). They involve certain personal expenses, such as medical expenses, mortgage interest, state taxes, and charitable contributions. If you have enough of these types of expenses, your itemized deductions may exceed your standard deduction. In that case, it would generally be to your advantage to itemize.

When filling out your tax return, how do you know whether to take the standard deduction or itemize? You should calculate your taxes (including any alternative minimum tax) using both methods, and go with the one that lowers your tax liability the most. Be aware that there are some limitations regarding who can use the standard deduction and who can itemize. Also, certain itemized deductions are available to you only if your expenses exceed a particular percentage of your AGI. For example, your medical expenses itemized deduction is allowed only to the extent that medical expenses exceed 10 percent of your AGI (in 2019, 7.5 percent of your AGI in 2018). So, if your AGI is $100,000, your first $10,000 of medical expenses won't count toward your total itemized deductions.

***Caution:** There may be circumstances where it is better to itemize deductions even if the standard deduction is greater than itemized deductions. For example, if you are subject to alternative minimum tax, even a small amount of some itemized deductions may be preferable to the standard deduction, which is reduced to zero for alternative minimum tax purposes.*

THE MEDICAL AND DENTAL EXPENSES DEDUCTION: WHAT IT IS, AND HOW IT INVOLVES YOUR INCOME LEVEL

The medical and dental expenses deduction is an itemized deduction that you may take (within certain limits) for unreimbursed medical and dental expenses you paid during the year for yourself, your spouse, and your dependents. You may be surprised to learn which medical and dental expenses are deductible and which are not; the line is sometimes blurry. For example, you can't deduct your expenses for nicotine gum, but you can deduct your fee for a smoking cessation program. Many expenses qualify for this deduction, including acupuncture treatments, crutches, eyeglasses, and prescription drugs. You should obtain IRS Publication 502, Medical and Dental Expenses, for an authoritative list of eligible and nondeductible expenses. If you don't review this list, you may miss out on some important tax-saving opportunities.

You can take this deduction only to the extent that your unreimbursed medical expenses exceed 10 percent of your AGI (in 2019, 7.5 percent of your AGI in 2018). That might sound complicated, but here's how it works. First, add up your eligible medical expenses. You can deduct only part of that total on Schedule A of your federal income tax return. The schedule will actually lead you through this calculation. On that form, you'll multiply your AGI by 10 percent (0.1). The figure you come up with will represent the amount of your medical expenses that you cannot deduct. Subtract this figure from your total eligible medical expenses. The remaining amount is your medical deduction.

PROPER TIMING OF YOUR DEDUCTIONS WILL MINIMIZE YOUR TAXES

For most people, income is reported in the year that it's received, while deductions are generally taken for the year in which expenses are paid. In many cases, you can control whether you incur an expense this year or next. That means that you can control the timing of your itemized deductions to some extent. If you're in a higher income tax bracket this year than you expect to be in next year, you may want to accelerate your deductions into the current year to minimize your tax liability. You can do this by paying deductible expenses before year-end and making charitable contributions before year-end. For example, if you have major dental work scheduled for January of next year, you can reschedule for December to take advantage of the deduction this year. Here are some tips:

- If you pay a deductible expense by check, make sure it's dated and mailed before year-end. It needn't clear the bank by year-end, however.
- If you pay by credit card, the expense is deductible in the year the charge is incurred, not when the credit card bill is paid.
- A mere pledge or promise to make a charitable contribution is not deductible.
- Along with your cash contributions to a charity, remember to deduct noncash contributions like clothes. You can also deduct mileage if you use your car for charitable purposes.

PHOTO: Snowboarding above the clouds in the snowy mountains of Vermont.

Tax Services

TAX PREPARATION CHECKLIST 2019

BRIAN MURRAY
TAX ADVISOR
bmurray@bwfa.com

PERSONAL INFORMATION

Personal Data
- ☐ Social Security Numbers and birthdates for you, your spouse and children
- ☐ Driver's license information for taxpayer and spouse *(license number, issuing state, expiration date, issue date)*

Your Household
*(include **only** those for whom you provide >50% of their support)*
- ☐ Name, date of birth, social security number, and gross income of any adult who lived with you all year
- ☐ Name, date of birth, social security number, and gross income of any parent not living with you
- ☐ Name, date of birth, social security number of any new additions to the family

INFORMATION ABOUT YOUR INCOME

Employment
- ☐ Forms W-2 for you and your spouse

Self-Employment
- ☐ Forms 1099-Misc, if applicable
- ☐ Your Business Records:
  - ☐ Income Statement *(include revenue and expense detail)*
  - ☐ Detail of taxes paid
  - ☐ Home office expenses
  - ☐ Vehicle expenses or mileage log *(records MUST be written)*
  - ☐ Listing of current year asset acquisitions and dispositions
  - ☐ Medical insurance premiums paid for you, your spouse, and dependents
  - ☐ Self-employed retirement contributions *(SEP, SIMPLE IRA, 401(k) plans)*

Pension/Annuities
- ☐ Forms 1099-R or RRB-1099 for distributions from IRAs or retirement plans
- ☐ Any nondeductible IRA/Roth contributions or distributions thereof
- ☐ Qualified charitable distributions
- ☐ Rollovers

Social Security Income
- ☐ Forms 1099-SA

Rental Income
- ☐ Forms 1099-Misc
- ☐ Income Statement *(include revenue and expense detail and taxes paid)*
- ☐ Listing of current year asset acquisitions and dispositions

Investment Income
- ☐ Forms 1099-DIV, 1099-INT: statements of dividends and interest
- ☐ Forms 1099-B: proceeds from broker transactions *(include cost basis information for all non-covered stock sold)*
- ☐ Schedules K-1: partnership, trust, estate and S Corporation income

Vermont is the nation's leading producer of maple syrup. Producing nearly 2 million gallons in 2017.

EXTENDING YOUR RETURN

All extensions must be filed by April 15, 2020

It has not been proven that extending increases audit risk

An extension of time to file is not an extension of time to pay

You can file your return at any time before October 15, 2020

REASONS FOR EXTENDING

Some tax forms are released later than others (Schedule K-1)

Increases time to contribute to a SEP IRA

A major life event, such as loss of a loved one, or new member of the family may cause a need for additional time to prioritize your taxes

Foreign Bank Account Information
- ☐ Bank information – location *(foreign country address)*, name of institution
- ☐ Account Information *(account numbers and maximum account values during the year)*

Miscellaneous Income
- ☐ Form 1099-G for state/local tax refunds or unemployment income
- ☐ Form 1099-S for Income on Sale of Property
- ☐ Settlement sheets for any sale, purchase, or refinance of residence and original basis of house sold
- ☐ Form 1099-C from Cancellation of Indebtedness Income
- ☐ Alimony received and date of court ruling
- ☐ Scholarships, fellowships
- ☐ Other:
  - ☐ Medical Savings Account
  - ☐ jury duty
  - ☐ gambling/lottery winnings
  - ☐ prizes/awards, etc.

ADJUSTMENTS, DEDUCTIONS, AND CREDITS INFORMATION

Child Care Expenses
- ☐ Name, address, tax ID or social security number, and amount paid *(NOTE: include **day camp** expenses but not the cost of summer school)*

Education
- ☐ Form 1098-E for student loan interest
- ☐ Form 1098-T for tuition paid
- ☐ Contributions to 529 plans
- ☐ Form 1099-Q for payments from a qualified education program and related expenses

Educators *(Grades K-12)*
- ☐ Expenses paid for classroom supplies *(receipts, canceled checks)*

Retirement Contributions *(IRA, 401(k), 403(b))*
- ☐ Records of contributions made for the current tax year completed by 4/15/2019 *(identify employer and employee contributions)*

Alimony Paid
- ☐ Amount paid, former spouse's name and social security number and date of court ruling

Mortgage Interest
- ☐ Forms 1098

Charitable Donations
*(NOTE: include charity's written statement for **any** single donation **>$250**)*
- ☐ Cash amounts, official charity receipts, canceled checks
- ☐ Value of donated property
- ☐ Miles driven and out-of-pocket expenses

Casualty/Theft Losses
- ☐ Provide details of loss or damages incurred and insurance reimbursements *(only if in federally declared disaster areas)*

Gifts >$15,000
- ☐ Any gifts given during the year *(description of gift and amount)*

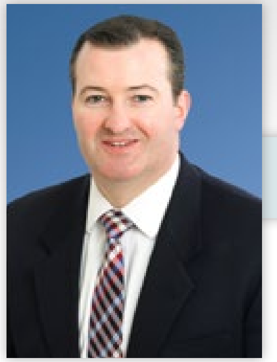
Other Expenses/Deductions
- ☐ Medical and Dental expense records
- ☐ Health Savings or Medical Savings Account contributions
- ☐ Adoption Expenses
- ☐ Early withdrawal penalties on CDs and other time deposits

OTHER IMPORTANT INFORMATION

Taxes You Paid
- ☐ Federal and state estimated tax payments *(include date & amount of each)*
- ☐ Real Estate Taxes Paid
- ☐ Personal Property Taxes Paid

NOTES

Business Services



OWNERSHIP HAS ITS PRIVILEGES

BRIAN MACMILLAN
MANAGING DIRECTOR
MERGERS & ACQUISITIONS
bmacmillan@bwfa.com

Walk down Nashville's Lower Broadway any night of the week, and you can hear aspiring artists belting out cover tunes from Elton John to Garth Brooks.

In many cases, these musicians come to Nashville to be discovered but pay their rent using the tips they get by playing other people's songs. Most are lucky to eke out a modest living while the stars they impersonate run thriving empires.

Forbes estimates[1] that Luke Bryan, country music's highest-paid star last year, earned 52 million dollars on the back of his stadium tour and duties as an *American Idol* judge and Chevy spokesperson.

What's going on here? Is Bryan *that* much more talented than the dozens of artists playing his songs in Nashville every night?

Probably not.

The difference comes down to who controls the product. In Bryan's case, he owns the music and the personal brand he has created to perform it. The cover artist is just reselling his stuff.

THE VALUE OF YOUR BRAND

The music business can be a helpful analogy in explaining why creating a unique brand is such a big contributor to the value of your company. Acquirers want what they could not easily copy. If you're reselling other people's products and services, an acquirer will likely argue that there are probably dozens of competitors driving down your margin next to nothing.

Further, they may even conclude that they too could earn a license to resell whatever you're distributing and will, therefore, place little value in the company you've built.

However, if you have something exclusive — a unique product or brand that makes people believe what you do is different — an acquirer will pay more, arguing it is difficult to reproduce what you have created.

If you find yourself reselling other people's products or services, you can still drive up the value of your business by creating a brand around the way you do it. You could argue that Peloton is just selling a stationary bike. Still, it is the unique company they have created around the bike — including the community of riders that subscribe — that has recently driven Peloton's value north of $7 billion (almost eight times trailing twelve months revenue at the time of their recent Initial Public Offering).

To drive up the value of your company, own the stuff you sell. If that's not possible, create a unique brand that makes consumers feel as if you do.

The Business Services team at BWFA works with business owners to help them understand what prospective buyers for their business will find valuable, including brand. Please contact us and schedule an initial consultation to discuss key value drivers.

[1] *http://www.nashcountrydaily.com/2018/08/14/forbes-list-of-the-highest-paid-country-stars-of-2018-includes-luke-bryan-garth-brooks-kenny-chesney-more/*

PHOTO: Stowe Mountain Resort, VT

BWFA Q&A

EMPLOYEE SPOTLIGHT

MATTHEW SMILER
ChFC
TAX ADVISOR
msmiler@bwfa.com

Q. IF YOU WERE NOT IN THE FINANCIAL WORLD, YOU WOULD BE...?

A. A Chef

Q. FAVORITE THINGS TO DO OUTSIDE OF BWFA?

A. I play basketball, golf and hang with my springer spaniel, Milo.

Q. WHO/WHAT INSPIRES YOU?

A. My grandfather inspires me. He is now 94. He achieved so much by an early age i.e., Marine Corp veteran (WWII & The Korean War), Baltimore City Detective and Motorcycle squad. He was an avid skydiver until around age 88.

Q. TELL ME ABOUT A MEMORABLE TRAVEL EXPERIENCE.

A. I look forward to laying on the beach and playing golf in Hilton Head, SC every year.

Q. FAVORITE SONG AND/OR BAND OF ALL TIME?

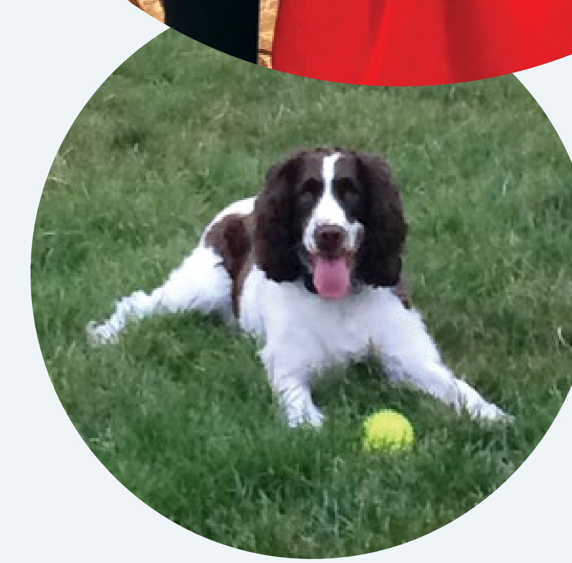
A. My favorite song at the moment is Neil Young's, "Down by the River". Favorite band is Led Zeppelin.

Q. YOU'RE A NEW ADDITION TO THE CRAYON BOX. WHAT COLOR WOULD YOU BE AND WHY?

A. Blue. The internet tells me it is a color that evokes trust, honesty, loyalty and confidence.

Q. FUN FACT ABOUT YOURSELF?

A. I enjoy cooking and I am pretty good at it.



What's Happening at BWFA

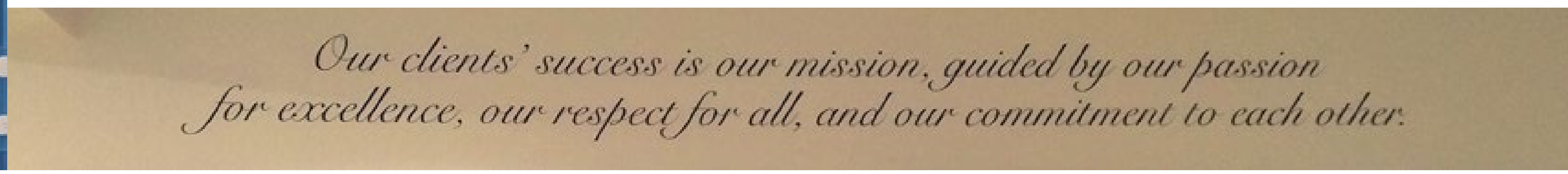
ALONG WITH THE NEW SIGNAGE ON OUR BUILDING, OUR OFFICE HAS SEVERAL MAJOR UPGRADES

New entrance hallway & reception monitors • New custom furniture in the Baltimore & Birdsong conference rooms
New artwork in the reception area with BWFA's Mission Statement
ALL NEW Columbia conference room with custom furniture and artwork to host large workshops and events

Congratulations Cortney & Joe!

Cortney Caronna of our Client Services Team and her husband Joe are expecting their first child, a baby boy, in May! We are so happy for you both. Enjoy this joyful journey into parenthood!

– Best Wishes From Your BWFA Family



BWFA has been honored by Howard County's Readers' Choice Awards "Best of Howard County" 5 YEARS IN A ROW!

PHOTO: View from the top of Okemo Mountain Vermont

BWFA TEAM HOLIDAY DINNER!

School *n.* fr. L. **SCHOLA**

2b: a group of people creating, cooking and eating together

BWFA CELEBRATED THE HOLIDAYS TOGETHER AT SCHOLA COOKING CLASS!

We had a wonderful time as a team, cooking our holiday feast! Working together in a kitchen, learning new techniques and getting our hands dirty was an experience we will never forget. The Chicken Parmesan was the big hit of the day! According to Rob, it was the best he has ever tasted!

Upcoming Events

All Seminars are from 11:45 A.M. to 1:00 P.M. unless noted otherwise. Please join us and bring a friend.

January

JANUARY 7, 2020
Tax Planning & Law Changes w/ Lex Ruygrok, CPA

JANUARY 9, 2020
Wellness Series: Boost Immune Health this Cold & Flu Season w/ Dr. Emily Telfair, N.D.

JANUARY 14, 2020
Planning for Social Security

JANUARY 16, 2020
6:00 PM - 9:00 PM
BWFA Book Club "The Water Dancer" by Ta-Nehisi Coates

JANUARY 16, 2020
Pitfalls of Annuities

JANUARY 21, 2020
Why a Cash Balance Plan is a Huge Tax Strategy w/ Pollard & Associates

JANUARY 23, 2020
Estate Planning: Legacy & Charitable Giving w/ Elville and Associates

JANUARY 28, 2020
Wellness Series: Deepen Your State of Relaxation w/ Dagmar Bohlmann, Certified Yoga Teacher

JANUARY 30, 2020
State of Residence in Retirement

February

FEBRUARY 4, 2020
Retirement 101: Strategies for Success

FEBRUARY 5, 2020
8,000 Days in Retirement at Cured Table & Tap w/ Elville and Associates

FEBRUARY 6, 2020
Estate Planning: How to Avoid Probate Court w/ Gary Greenwald, Esq.

FEBRUARY 11, 2020
CST: Client Information Workshop

FEBRUARY 13, 2020
Top 10 Reasons You Should Fire Your Financial Advisor

FEBRUARY 14, 2020
Valentines Day: Wellness Speaker for Couples

FEBRUARY 18, 2020
What's Your Retirement Number?

FEBRUARY 20, 2020
Top 10 Mistakes Retirees Make

FEBRUARY 25, 2020
Business Owner Series: Exit Strategy & Succession Planning

FEBRUARY 27, 2020
Estate Planning: Aging in Place or CCRC

March

MARCH 3, 2020
Estate Planning: When a Loved One Passes w/ Gary Greenwald, Esq.

MARCH 4, 2020
8,000 Days in Retirement at Cured Table & Tap w/ Elville and Associates

MARCH 5, 2020
Required Minimum Distributions

MARCH 10, 2020
State of Residence in Retirement

MARCH 12, 2020
Wellness Series: Take a Breath – Calming Anxiety & Stress w/ Dagmar Bohlmann, Certified Yoga Teacher

MARCH 17, 2020
St. Patrick's Day: Luck in Investing

MARCH 19, 2020
The Difference Between Alzheimer's and Dementia w/ Elville and Associates and Jill Rosner, R.N.

MARCH 24, 2020
Estate Planning for the LGBTQ+ Community w/ Elville and Associates

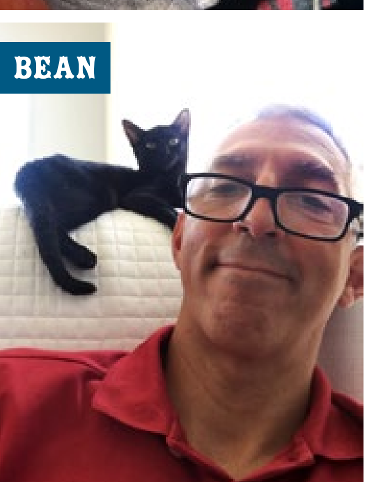
MARCH 26, 2020
Changing Jobs

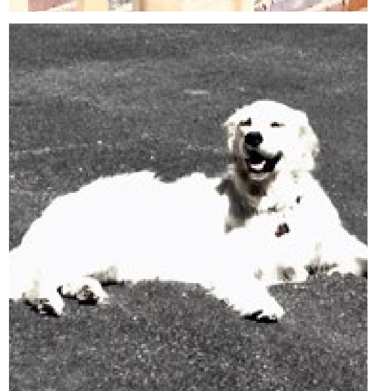
MARCH 31, 2020
Disability Planning w/ Gary Greenwald, Esq.

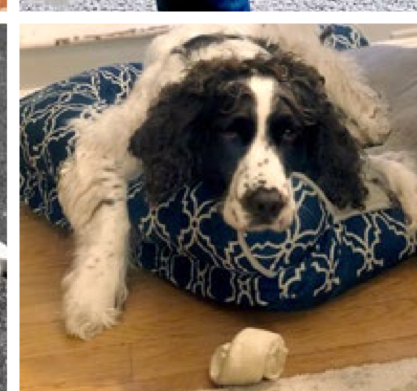
Check out BWFA.COM for latest list of seminars.

To register for any BWFA event:
Email Eve Kennedy at ekennedy@bwfa.com

WE ♥ OUR FUR BABIES!







Wishing you a New Year filled with joy & prosperity.
From our family to yours!

B | W | F | A

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Baltimore-Washington

FINANCIAL ADVISORS

RETIREMENT & ESTATE PLANNING | INVESTMENT MANAGEMENT | TAX SERVICES | BUSINESS SERVICES

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