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A person doesn't know how much he has to be thankful for until he has to pay taxes on it.

Anonymous

Please let us know if we can assist you in gathering documents and information for the 2017 tax deadline. Contact your advisor at 800.440.8807.

Thank you,
Tom

March 2017

Why Diversification Matters

Encouraging a Culture of Philanthropy in Your Business

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

Will I owe income taxes when I sell my home?



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)





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

Why Diversification Matters

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.





Company-sponsored volunteer projects and projects that encourage employees to team up with their peers are the most common components of a company's volunteer strategy. Nearly 60% of companies offer paid time off for employees to volunteer.

Source: [America's Charities](#) 2015 Snapshot

Encouraging a Culture of Philanthropy in Your Business

As a business owner, you are committed to serving the needs of many different stakeholders, including your customers/clients, business partners and investors, employees, vendors, and family members. And like many business owners, you may also be highly motivated to have an impact on the "greater good." The benefits of giving back are both tangible and intangible, but where do you begin? Start by fostering a culture of philanthropy within your business.

Understand the "triple bottom line" approach

First coined in 1994 by John Elkington, an authority in the area of corporate responsibility, the triple bottom line (TBL) approach is used by many large companies to measure not just their financial impacts but their social and environmental impacts as well. Small businesses can use this triple bottom line philosophy as a guiding framework in meeting their philanthropic and social responsibility goals. Incorporating TBL thinking and language into a written mission statement may help clarify such goals for important stakeholders.

Determine your organization's focus

Consider tackling your organization's philanthropic endeavors in a manner similar to your business plan. That is, identify a need that is related to your business or one it may be uniquely qualified to address, and draft a written plan to support it.

What are your organization's strengths, talents, interests, and products? How can you put them to use in a charitable way? For example, if your business is a law firm, you might consider offering pro bono services to a specific group of individuals who cannot afford legal counsel, or perhaps to a nonprofit organization that needs a periodic review of documents. If you own a sporting goods store, maybe you can find ways to work with the community to encourage physical fitness or donate equipment to a children's organization. The key is to match up local needs with the resources your business can provide.

Involve your employees

Once you document your area of philanthropic focus, you may discover a variety of ways to get your employees involved, which could have the added benefit of boosting employee morale. You might, for example, match employee donations to nonprofit organizations (within certain financial limits and donation parameters) or allow your employees to take paid time off to volunteer. You could ask staff members to lead a committee that coordinates

charitable events throughout the year — just be sure this work doesn't become an additional burden or obligation on top of their everyday responsibilities. You could incorporate charitable giving into team-building or ice-breaking exercises, such as randomly assigning groups of employees to work together on specific projects that aid underprivileged children or homeless families.

Consider sponsorships

Many organizations help citizens directly (and also get a little positive publicity) by sponsoring teams or events within their communities. Such tactics might include sponsoring a youth soccer team or providing funding for a charity road race. Remember to ensure that your company's name and logo appear on event clothing, promotional materials, and signage to help spread the good word that your company cares.

Provide cash donations

You could make direct cash donations to charitable organizations. Remember to get receipts and maintain appropriate records for donations of cash or goods for tax purposes.

Realize tax benefits

Speaking of taxes, don't neglect to take advantage of any tax benefits that may result from your philanthropic endeavors. In most cases, you can take a deduction of up to 50% of your adjusted gross income if you itemize deductions on Form 1040, Schedule A.

Corporations (other than S corporations) can deduct charitable contributions on their income tax returns, subject to limitations. See the instructions for Form 1120 for more information.

Not all contributions are deductible. Following is a brief summary from the Small Business Administration.

- Cash contributions are deductible as long as they aren't set aside for use by a specific person. Cash contributions should be made within the current tax year, regardless of the accounting method used by your business.
- Property or inventory donations are tax deductible. Use Form 8323 to determine the fair market value of goods valued at more than \$500 (\$5,000 for C corporations).
- Although you cannot deduct the value of volunteer hours donated, you can deduct the costs incurred for a volunteer activity.

For more detailed information, consult [IRS Publication 526](#), Charitable Contributions, and be sure to consult with a tax professional.



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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

