FINANCIAL
newsletter

Wealth Architects, LLC

April

By the Numbers: Tax Season

It might not be the most wonderful time of the year, but it is arguably the most important. With tax filing season upon us, here are some statistics from previous tax filing years.

$2,860

The average refund per tax return for the 2016 calendar year. This represented a 2.3 percent increase from the previous year, meaning that tax returns essentially kept pace with inflation.

152.5 million

Amount of individual income tax returns that the IRS received in the 2016 calendar year. This represented a 1 percent increase from the previous calendar year. Of the total number of returns, over 86 percent were filed electronically.

$317.6 billion

The total combined amount of refunds issued to all tax filers in 2016, a 3.8 percent increase from the previous year.

111 million

The total number of refunds issued by the IRS in 2016, an increase of 1.5 percent from 2015. Roughly 73 percent of filers were issued a refund.

53 million

The number of self-prepared electronic tax returns in 2016. This marked a 5.4 percent increase from 2015.

$38,171

The median adjusted gross income (AGI) per tax filer in tax year 2014.

9 hours

The average amount of time that non-business filers will spend on filling out a 1040, 1040A or 1040EZ tax form.

$120

The average amount that a non-business filer spends on filing a tax return.

$91.9 billion

Total amount of refundable tax credits paid out to taxpayers from the 2014 tax year, a slight decrease from the $92.6 billion paid out in the previous year.

22 hours

The average amount of time that a business spends filing their taxes.

$430

The average amount that businesses will spend on filing their tax forms.

$9.77 trillion

Total adjusted gross income (AGI) in the United States for the 2014 tax year, a 6.1 percent increase from the previous year. Fueling the rise in AGI was a notable increase in salaries and wages (4.8 percent), capital gains (34.4 percent), dividends (14.7 percent) and other items related to taxable income.

All information courtesy of the IRS

the market at a glance

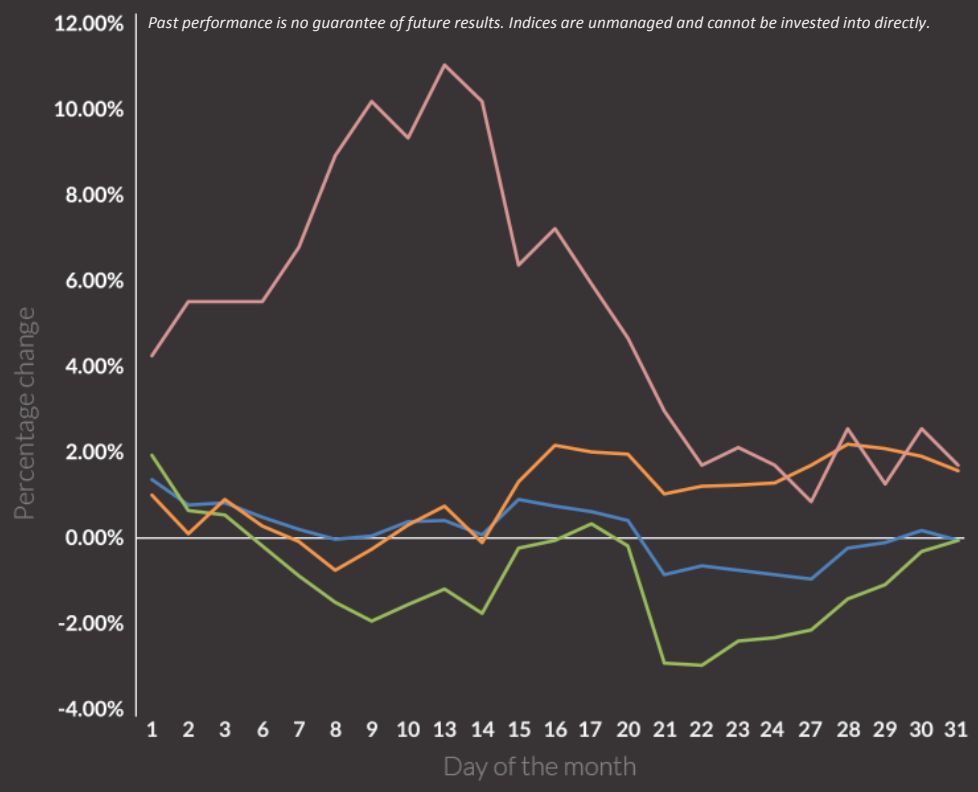
March

U.S. Large Cap
(S&P 500)
2,362.72 (-0.04%) ▼

U.S. Mid/Small
(Russell 2000)
1,385.92 (-0.05%) ▼

International Large
(NYSE International 100)
5,153.78 (1.58%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
2.40 (1.69%) ▲



The market in action

- David Rockefeller, noted philanthropist and banker, passed away in March at 101 years old. He donated approximately $900 million over his lifetime. This means that, on average, Rockefeller donated more than $24,000 every day of his life.
- The total GDP of the world is worth about $74 trillion. The United States' economy alone represents about 24 percent of the global total.
- According to a study from Amino, 37 percent pf Americans cannot afford a medical bill that exceeds $100.
- In 2015, 52 of the 100 largest cities in the US had more renters than property owners.
- Petroleum, gas and coal accounted for 94 percent of America's energy consumption in 1970. In 2015, that number dropped to 82 percent. However, total energy consumption in the United States increased by nearly 44 percent.
- According to Global Finance Magazine, the Central African Republic is the poorest nation in the world. For context, the Central African Republic's GDP per capita, $656, is just 1 percent of the United States.
- Of the estimated 1,800 billionaires in the world, only four countries are home to more than 100 billionaires. Germany and Switzerland both boast 120 billionaire residents, whereas China has over 250. The United States has the most billionaire residents in the world, totaling 540. This means 30 percent of the world's billionaires are residents of the United States.
- For the second straight year, RadioShack is filing for bankruptcy. In the wake of filing Chapter 11, the company is expected to immediately close nearly 200 of its 1,500 stores.
- AIG's CEO, Peter Hancock, plans to resign after serving for more than two years in his position. However, Hancock will remain active in the company until a proper successor is hired.
- The highest paying job in 2017 is being a physician. Of the 25 most lucrative jobs, 17 were in either health care or technology.

Financial Literacy Quiz

April is Financial Literacy Month and here's a chance to put your financial knowledge to the test. Below are eight general (but not necessarily easy) questions that could be essential to your financial planning. The answers are provided on the next page.

While you can take pride in the questions you answer correctly, it is more important to look at the ones you may have missed. Of these, is the question significant to your finances or have you been structuring your finances using an incorrect assumption? Regardless of how many questions you get right or wrong, they can help add clarity to your financial decisions.

1. How much can a person increase his or her Social Security check by waiting until age 70 to begin taking benefits, rather than taking them at "full retirement" at age 66?
   a. 10 percent
   b. 16 percent
   c. 24 percent
   d. 32 percent
2. 2. A husband and wife decide to begin saving for retirement at age 25. The wife starts funding her retirement account right away with $400 a month. She continues saving at this rate for 10 years. When she stops, her husband begins funding his retirement account at the same rate, but contributes for 30 years, at which point they retire. Both accounts grow tax free at a rate of 6 percent a year. We know the wife only saved one-third of what her husband saved, but which statement best describes the final value of the account?
   a. The wife ended up with significantly more money
   b. The wife ended up with slightly more money
   c. The husband ended up with slightly more money
   d. The husband ended up with significantly more money
3. True or False:

   Annuities are a poor investment because they return less money than if the principal cost was invested directly.
4. For the 2017 tax year, what is the maximum amount an estate is exempt from taxation?
   a. $1.49 million
   b. $2.49 million
   c. $5.49 million
   d. No maximum on the exemption
5. Using the S&P 500 market index, what has been the average annual growth rate of large-cap stocks from 2007-2016?
   a. 2 percent
   b. 5 percent
   c. 8 percent
   d. 12 percent
6. What is the primary difference between mutual funds and exchange-traded funds (ETFs)?
   a. ETFs are not actively managed by anyone, and therefore have lower management fees than most mutual funds.
   b. Unlike mutual funds, ETFs are not regulated by the Securities Exchange Commission, allowing ETFs to use much riskier investment strategies.
   c. Mutual funds are not allowed to invest in foreign bonds; ETFs can make use of any bonds available.
   d. The average ETF comprises far more unique investment assets than mutual funds, which typically make use of less than 10 different assets.
7. Say you start your retirement with a target income of $50,000 a year. Assuming inflation continues at a modest 2 percent, how much money will you need by the 25th year of your retirement to maintain the about same spending power as $50,000?
   a. $70,000
   b. $80,000
   c. $90,000
   d. $100,000
8. True or False:

   Bonds are often considered safer assets than stocks; a safe portfolio is one that consists mostly of bonds.

Answers and Explanations

1. **d. 32 percent**

   Your monthly social security benefit increases by 8 percent of its full retirement value for each year you defer, reaching its maximum at age 70. This increase can make delaying your social security benefit extremely advantageous if you end up having a long retirement.

2. **c. The husband ended up with slightly more money**

   This one was a bit of a trick question and would have been difficult to answer unless you got a calculator and did the math. In this scenario, the husband ended up with about 4 percent more than his wife did, but contributed 300 percent of what she did and only passed her value in the last four years of saving. The husband ended up with more in his account, but the extra $96,000 the wife got to use elsewhere makes her the better planner.

3. **False**

   Like most things with retirement and investing, the usefulness of a strategy or investment comes down to the individual. Annuities can be extremely helpful for certain people. Only a comprehensive retirement plan can determine whether an annuity is right for a person.

4. **c. $5.49 million**

   In 2011, the government allowed individuals to pass up to $5 million through their estate (married couples could pass $10 million). Since this value is adjusted for inflation, it increases each year; in 2017, this exclusion is now $5.49 million for an individual and $10.98 million for married couples. Any amount exceeding this exemption is taxed at 40 percent.

5. **b. 5 percent**

   Though it has improved significantly since the Recession, the S&P 500 stock index has only climbed an average of about 5 percent per year for the past 10 years. It's important to note that historical growth rates are no indication or guarantee of future changes in the market.

6. **a. ETFs are not actively managed by anyone, and therefore have lower management fees than active mutual funds.**

   The lower fees associated with inactive management has made ETFs very popular in recent years; however, though mutual funds typically generate higher fees, their active management often allows them to survive market upheaval better than ETFs.

7. **b. $80,000 (technically, $82,030)**

   After 25 years of 2 percent inflation, each dollar has lost about 40 percent of its buying power. It is absolutely vital to consider the significance of inflation when calculating your retirement plan.

8. **False**

   "Safety" in investing is all relative to a person's situation. Any portfolio that is overly committed to a single asset or type of asset is carrying extra risk. Additionally, safer assets produce lower returns. It is possible for a "safe" asset to be dangerous because it does not produce high enough returns for you to meet your goals.

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