City State Bank Trusts & Investments
Spring 2017 Newsletter

CITY STATE BANK INVEST

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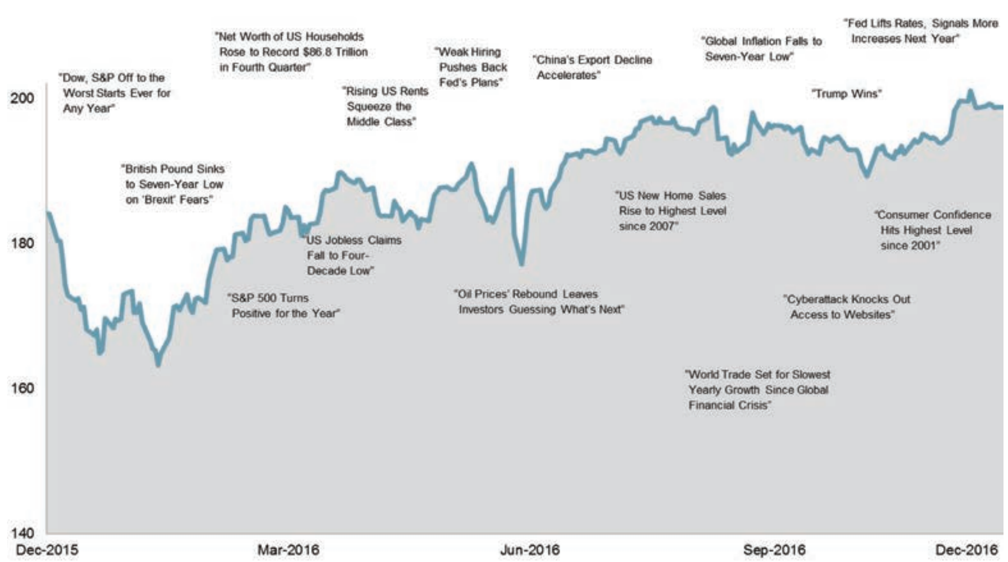
World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



LEARN TO EXPECT SURPRISES IN THE MARKETS

2016 showed us many surprises throughout the year. From the Cubs winning the World Series to Donald Trump becoming the 45th President. From the Dow Jones Industrial Average falling over 8% in the first 10 trading days of the year (worst ever start to a new year) to ending the year a whisker away from 20,000. There were many headlines (noted above) that were perceived as significant throughout the year.

If we learned anything throughout this past year and from previous years, is to expect the unexpected when it comes to markets. Despite all the events and noise, the S&P 500 returned 11.9% in 2016. February continues to show investors that it is difficult to predict a top in the markets. It's no wonder investors have a hard time sticking with a disciplined approach to portfolio management. The markets are constantly tempting us to be impatient, chase performance, and abandon discipline.

One of the hardest things as an investor is knowing (or should know) that markets will eventually go down. No one knows with precision when and by how much this will happen. That is why developing a financial plan that focuses on diversification, asset allocation, and sound investments will help when unexpected surprises arise. The largest risk to most investment plans is abandoning your strategy at the wrong time and missing out on the longer term rewards.

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KEY RETIREMENT AND TAX NUMBERS FOR 2017

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2017.

RETIREMENT PLANS

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $18,000 in compensation in 2017; employees age 50 and older can defer up to an additional $6,000 in 2017.
- Employees participating in a SIMPLE retirement plan can defer up to $12,500 in 2017, and employees age 50 and older will be able to defer up to an additional $3,000 in 2017.

IRAs

The limit on annual contributions to an IRA remains unchanged at $5,500 in 2017, with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the modified adjusted gross income (AGI) ranges (above).

	2016	2017
Single/head of household (HOH)	$61,000 - $71,000	$62,000 - $72,000
Married filing jointly (MFJ)	$98,000 - $118,000	$99,000 - $119,000
Married filing separately (MFS)	$0 - $10,000	$0 - 10,000

***Note:** The 2017 phaseout range is $186,000 $196,000 (up from $184,000 - $194,000 in 2016) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals making contributions to a Roth IRA are:

	2016	2017
Single/HOH	$117,000 - $132,000	$118,000 - $133,000
MFJ	$184,000 - $194,000	$186,000 - $196,000
MFS	$0 - $10,000	$0 - 10,000

STANDARD DEDUCTION

These amounts have been adjusted to the right:

***Note:** The 2016 and 2017 additional standard deduction amount (age 65 or older, or blind) is $1,550 for single/HOH or $1,250 for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

	2016	2017
Single	$6,300	$6,350
HOH	$9,300	$9,350
MFJ	$12,600	$12,700
MFS	$6,300	$6,350

ALTERNATIVE MINIMUM TAX (AMT)

AMT amounts have been adjusted in the graph below:

	2016	2017
Maximum AMT exemption amount		
Single/HOH	$53,900	$54,300
MFJ	$83,800	$84,500
MFS	$41,900	$42,250
Exemption phaseout threshold		
Single/HOH	$119,700	$120,700
MFJ	$159,700	$160,900
MFS	$79,850	$80,450
26% on AMTI* up to this amount, 28% on AMTI above this amount		
MFS	$93,150	$93,900
All others	$186,300	$187,800

*Alternative minimum taxable income.

ESTATE AND GIFT TAX

- The annual gift tax exclusion remains at $14,000.
- The gift and estate tax basic exclusion amount for 2017 is $5,490,000, up from $5,450,000 in 2016.

PERSONAL EXEMPTION

The personal exemption amount remains at $4,050. For 2017, personal exemptions begin to phase out once AGI exceeds $261,500 (single), $287,650 (HOH), $313,800 (MFJ), or $156,900 (MFS).

***Note:** These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2016 threshold amounts were $259,400 (single), $285,350 (HOH), $311,300 (MFJ), and $155,650 (MFS).*

WILL VS. TRUST: IS ONE BETTER THAN THE OTHER?

When it comes to planning your estate, you might be wondering whether you should use a will or a trust (or both). Understanding the similarities and the differences between these two important documents may help you decide which strategy is better for you.

WHAT IS A WILL?

A will is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal way you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

WHAT IS A TRUST?

A trust document establishes a legal relationship in which you, the grantor or trustor, set up the trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. "Revocable" means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or "ownership" of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

HOW TO THEY COMPARE?

While both a will and a revocable living trust enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are a few important ones.

- A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.
- In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated, and tedious process.
- Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.
- If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.
- A trust can be used to manage and administer assets you leave to minor children or dependents after your death.
- In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

WHICH IS APPROPRIATE FOR YOU?

The decision isn't necessarily an "either/or" situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children, and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and ongoing maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer.

ESTATE PLANNING TIP:

It is always prudent to periodically review your estate plan and make any updates that may be necessary. Think back on the last year and beyond and consider whether there have been any significant life events that may require changes to your estate plan. Have there been new births, deaths, marriages, or divorces in your family? Perhaps you have purchased new real estate or farm ground. These are just a few of the many changes that may occur throughout your life that could result in needing to update your estate plan.

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DIRECT AND INDIRECT ROLLOVER - WHAT'S THE DIFFERENCE?

If you're eligible to receive a taxable distribution from an employer-sponsored retirement plan [like a 401(k)], you can avoid current taxation by instructing your employer to roll the distribution directly over to another employer plan or IRA. With a direct rollover, you never actually receive the funds.

You can also avoid current taxation by actually receiving the distribution from the plan and then rolling it over to another employer plan or IRA within 60 days following receipt. This is called a "60-day" or "indirect" rollover.

But if you choose to receive the funds rather than making a direct rollover, your plan is required to withhold 20% of the taxable portion of your distribution. This is true even if you intend to make a 60-day rollover. You can still roll over the entire amount of your distribution, but you'll need to make up the 20% that was withheld using other assets.

For example, if your taxable distribution from the plan is $10,000, the plan will withhold $2,000 and you'll receive a check for $8,000. You can still roll $10,000 over to an IRA or another employer plan, but you'll need to come up with that $2,000 from your other funds.

Similarly, if you're eligible to receive a taxable distribution from an IRA, you can avoid current taxation by either transferring the funds directly to another IRA or to an employer plan that accepts rollovers, or by taking the distribution and making a 60-day indirect rollover (20% withholding doesn't apply to IRA distributions).

Under recently revised IRS rules, you can make only one tax-free, 60-day, rollover from any IRA you own (traditional or Roth) to any other IRA you own in any 12-month period. However, this limit does not apply to direct rollovers or trustee-to-trustee transfers.

Because of the 20% withholding rule, the one-rollover-per-year rule, and the possibility of missing the 60-day deadline, in almost all cases you're better off making a direct rollover to move your retirement plan funds from one account to another.

TIME TO RETHINK YOUR LIFE INSURANCE?**

Here are some life events that require a second look at current life insurance protection:

- Marriage
- Having a baby
- Buying a new home
- Changing jobs - Most employer group plans are only available when you are working there
- Divorce - Make sure beneficiaries are updated
- No coverage today - It will get more expensive the longer you wait

Term life insurance is a low cost solution to provide the coverage you need during certain stages of your life. Contact us for a quote.

IMPORTANT DISCLOSURES

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