HOW TO PUT YOUR BONUS TO WORK

You received a bonus – congrats! The year-long awaited symbol of a job well done. Unfortunately, it may also trigger Uncle Sam to visit your coffers. Before you decide to spend it in defiance, here are some ways to put your bonus to work in your favor.

1. Max Out Your 401(k)

Make sure your employer will allow a bonus to apply towards 401(k) contributions. If so, verify how much you've already contributed for the year, and how much is needed to reach the annual deferral limit ($18,000 in 2016; $24,000 for those 50 and over). You may need to set a reminder in your calendar to increase your contribution to hit the maximum, with a follow-up reminder to decrease to standard levels. Depending on how your employer calculates and makes matching contributions, it might make more sense to spread your bonus over multiple paychecks, versus one lump-sum. Consult your HR professional.

If your employer doesn't allow bonuses to apply towards 401(k) contributions, consider depositing the after-tax bonus into your savings account and increase your 401(k) contribution, in order to shelter the equivalent amount into your employer's plan. You'll have to budget your savings account spending, but this approach will help you achieve your savings goals, avoid payroll taxes and take advantage of tax-deferred savings for retirement. Not to mention the benefit of the compounding effect of savings growth in your retirement account. Work with a financial consultant to help design a strategy that's right for you. Starting early makes a significant impact and this approach will jump-start your success!

2. Take Advantage of a Health Savings Account (HSA)

If you have a high deductible health insurance plan, think of an HSA as a savings plan for health care you'll need today, tomorrow and into the future. It has *"triple tax benefits"*:

a. Funds deposited are federal income tax-free
b. Savings grow tax-free
c. Withdrawals made for qualified expenses are income tax-free

There is no *"use it or lose it"* rule – unused funds rollover from year to year and you keep the money even if you change jobs or health plans. Anyone can contribute – you, your employer or a loved one - in 2016, the HSA contribution limit is $3,350 for single and $6,750 for family. When you turn 65, you can use your HSA savings to pay for any tax-deductible health insurance (except for Medicare supplemental insurance). Once your balance reaches a threshold you can invest in mutual funds. When you earn money on these investments, no income tax is paid. Consult your financial professional for advice on how much to contribute and invest these funds. Qualified expenses include most services provided by licensed health care providers, including:

- *Eyeglasses, Vision Exams, Contact Lenses & Laser Eye Surgery*
- *Hearing Aids & Batteries*
- *Acupuncture & Chiropractor*
- *Substance-abuse Treatment*
- *Mental Health Counseling & Psychiatric Care*
- *Health Plan Deductibles and Co-payments, including COBRA & Long-Term Care Premiums*
- *Dental Treatments such as x-rays, cleaning, fillings, braces & tooth removal*
- *Prescriptions*
- *Laboratory & Diagnostics Fees*
- *Vasectomy*
- *Stop-smoking Programs*
- *Physical Therapy*

3. Max Out Your Traditional IRA

Receiving a bonus may not only send some folks into a higher tax bracket, but may also prevent certain deductions or tax credits. After consulting with your tax professional, you may wish to contribute up to 100% of this year's limit of $5,500 ($6,500 for those 50 and over) to a Traditional IRA. The primary benefits of contributing to an IRA are the tax-deduction, tax-deferred growth on earnings and non-refundable tax credits. If you don't participate in an employer-sponsored plan (SEP IRA, SIMPLE IRA, 401(k), 403(b), 457), contributions may be tax deductible. If you're covered by a retirement plan at work, the deductibility of your contributions are determined by your modified adjustable gross income and tax-filing status - use the below table to determine if your modified adjusted gross income affects the amount of your deduction:

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
Single or **head of household**	$61,000 or less	Full deduction up to the amount of your contribution limit
	More than $61,000 but less than $71,000	Partial deduction
	$71,000 or more	No deduction
Married filing jointly or **qualifying widow(er)**	$98,000 or less	Full deduction up to the amount of your contribution limit
	More than $98,000 but less than $118,000	Partial deduction
	$118,000 or more	No deduction
Married filing separately	Less than $10,000	Partial deduction
	$10,000 or more	No deduction

If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "*single*" filing status.

You may be eligible for a non-refundable tax *"Saver's Credit"* of up to 50% of your retirement plan or IRA contribution, not exceeding $2,000 ($4,000 if married filing jointly), depending on your adjusted gross income and tax-filing status. Use the chart below to calculate your credit:

2016 Saver's Credit			
Credit Rate	**Married Filing Jointly**	**Head of Household**	**All Other Filers***
50% of your contribution	AGI not more than $37,000	AGI not more than $27,750	AGI not more than $18,500
20% of your contribution	$37,001 - $40,000	$27,751 - $30,000	$18,501 - $20,000
10% of your contribution	$40,001 - $61,500	$30,001 - $46,125	$20,001 - $30,750
0% of your contribution	More than $61,500	More than $46,125	More than $30,750

4. Beef Up Emergency Funds

The only thing we know for certain is that we *cannot* know what is going to happen in the future. When will your next illness occur? When will the next market downturn happen? When will you experience a disruption in work? No one knows! These questions illustrate why planning for the certainty of uncertainty is a essential part of responsible planning. How much should I save? A rule of thumb is 3-6 months of fixed and variable expenses, including real estate or federal taxes due.

- Use 3 months if: you're single with a second source of income; married and both spouses are working and have similar incomes; married with only one spouse working with a second income source (second sources of income may be alimony or trust fund income).
- Use 6 months is you're a single wage earner or married with only one spouse working. The Emergency Fund account should have at least one degree of separation from any accounts used to pay bills, such as your checking account.
- The money in your emergency fund should also be invested in something which will remain safe, yet earn a return on the investment, such as a 6-month (or less) Certificate of Deposit (CD), T-Bills or money market instruments. It should be easy to liquidate in the event of an emergency and yet not so easy you can tap into it for a weekend in Vegas.

5. Make a Charitable Contribution

Research supports the act of giving as a pleasurable event in the deepest part of your brain. It also suggests people who give charitably experience greater life satisfaction and general happiness than those who do not. Aside from leaving a lasting legacy with an organization in alignment with your personal values and philosophies, charitable giving also has great tax benefits. A gift to a qualified organization may entitle you to a charitable contribution deduction against your income tax if you itemize deductions. If the gifts are deductible, the actual cost of the donation is reduced by your tax savings. A contribution to a qualified charity is deductible in the year in which it is paid and you don't need to wait until year-end to make an impact on your favorite organization. Remember to document the contribution – no deduction is allowed for a contribution of $250 or more unless you have written confirmation from the charity. Here are some examples of organization to which you can give and deduct your donation:

- Churches and other religious organizations
- Tax exempt educational organizations
- Tax exempt hospitals and certain medical research organizations
- Government unit, such as state or political group

6. Invest for the Future

Similar to being over-prepared for an important exam, rarely do people experience anger at having too much money set aside for a future event. Many times we plan for these events, but sometimes they happen to us suddenly. For those who are prepared, the arrival of the event is simply a time to be celebrated. When might you have an opportunity to pay for a wedding, build a dream home, build a park, move to another country or begin a second career? Who knows! If you're not already doing so, find a financial coach to help determine your greatest dreams and create an after-tax account with a strategy to fund an adventure of a lifetime! Start by discussing your values, identify your capacity for risk, and determine a disciplined approach saving regularly. You can even go so far as to engage in socially responsible investing, also known as sustainable, socially conscious, "*green*" or ethical investing, which includes any investment strategy which seeks to consider both financial return and social good.

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