



Cuba: Open for business

Stemming from disagreements during the Cold War, the United States has had an embargo on Cuba for over 50 years. However, over the last few years, relations between the U.S. and Cuba have begun to thaw, culminating in President Obama being the first sitting president to visit Cuba in nearly 90 years. Now that the end of the embargo seems like a matter of “when” rather than “if,” here is how the U.S. and Cuban economies could be impacted once political relations are fully restored.

Impact on the Cuban economy

The Cuban economy is largely dependent on external revenue. According to a study done by Texas A&M, international visitors and tourism generated \$2.0 billion for Cuba in 2010. If the travel restrictions between the United States and Cuba are lifted, the International Monetary Fund estimates an increase in American visitors from 700,000 annually to 10 million.

However, U.S. tourists are not the only ones who are interested in the embargo being lifted. U.S. companies are also looking to establish or expand their presence in Cuba. Airbnb, Netflix, and Verizon currently have operations in Cuba, and Carnival Cruise and Starwood Hotels are among those looking to start Cuban operations. The increased presence of U.S. companies in Cuba will lead to more employment opportunities for Cuban locals and inflows of money and resources towards rebuilding Cuba’s crumbling infrastructure.

Current living standards in Cuba are incredibly low, with the average worker living off about \$20 per month. According to a study from 2015, private sector employment in Cuba represented 33 percent of all employment in Cuba, which is up from 23 percent 15 years ago. These privately owned and operated companies will be exposed to millions of new potential

customers from the United States. Given the influx of American dollars to the Cuban economy, the standard of living for Cubans could see a rapid rise in quality.

Impact on the U.S. economy

On the U.S. side, the Texas A&M study found that lifting the embargo with Cuba will create an estimated 6,000 jobs and \$4 billion in the agricultural industry alone. Many Cubans who receive remittances from their work purchase food imported from the United States. If more Cubans were to obtain positions that supplied remittances, the Cuban government would need to increase imports to meet demand. Even with the current embargo, the United States is still Cuba’s second-largest food supplier, amounting to around \$800 million of trade each year.

The automotive industry for the United States will also see a boom, as most Cubans only have access to American cars built in the late 1950s and early 1960s. The ability to buy American-made cars once again will be mutually beneficial, stimulating both U.S. automotive companies as well as the Cuban market for new cars and vehicle servicing.

Cuba also has a vast and advanced biotech industry with pioneering treatments for diseases. Every year, around 80,000 American citizens get amputations due to diabetes. Cuba has developed a medication that reduces the risk of amputation by around 80 percent. Access to this medication would spare American citizens lifestyle difficulties and costly medical procedures for diabetes-related issues.

Provided that relations continue on their current trajectory, the long-standing embargo will be lifted sooner rather than later. While the extent of the new trade policies remains to be seen, it is safe to say that there will be significant impacts on both the Cuban and U.S. economies.

the March market

at a glance



U.S. Large Cap
(S&P 500)

2,059.74

6.60%



U.S. Mid/Small
(Russell 2000 Index)

1,114.03

7.75%



Foreign Large
(NYSE International 100)

4,620.50

6.63%



Bond Market
(Barclays US Aggregate)

1983.77

0.69%

March 2016 market data

in action

- As part of its continuing effort to spur economic growth, the European Central Bank lowers its overnight funds rate to -0.4 percent and increases its quantitative easing program to 80 billion euros of monthly bond purchases.
- Saudi Arabia seeks an external loan for the first time in over a decade. The loan, which may be as high as \$8B, will be used to fill government deficits created by low oil prices.
- Boeing Company makes plans to cut as many as 8,000 jobs by the end of 2016. Boeing's cuts will affect jobs at all levels, from executives to floor workers.
- European stock exchanges Deutsche Boerse AG and London Stock Exchange make a \$30B agreement to link their trading systems. The deal is designed to help the two European exchanges compete with the United States.
- Credit rating agencies Moody's and Standard & Poor's downgrade their outlook on Chinese government debt to "negative," citing potential problems with growth and reform. However, the agencies did not downgrade the country's credit rating.
- The U.S. Bureau of Labor Statistics reports that 242,000 jobs were created in February. This marks 72 consecutive months of net job growth in the United States.
- Avon Products, Inc. announces plans to cut 2,500 positions and relocate its headquarters to Great Britain. The move is expected to save the company approximately \$50M in payroll and operations expenses in the United States.
- Athletic retailer Sports Authority, Inc. files for bankruptcy and announces it will immediately begin the process of closing up to 40 percent of its stores and distribution centers.
- Taiwanese electronics giant Foxconn agrees to buy Japanese tech company Sharp Corp. for \$3.5B. It is the largest foreign acquisition of a Japanese technology company in history.

Taxes on Social Security benefits

The Social Security benefits you receive during retirement may not be completely tax-free income. In general, Social Security income is not taxed; it is only when you earn additional income (either by continuing to work or from investments) that tax begins to play a role in your Social Security income. If, however, you do not earn or receive other income throughout the year, you should not have to worry about being taxed on your Social Security benefits.

Provisional income

To determine whether or not you owe taxes, you need to calculate your provisional income. To do so, consider your earned wages from working (and your spouse's, if you're married), any additional sources of income, and even your tax-exempt interest income, such as from municipal bonds (but not Roth IRA withdrawals). Add that sum to half of the social security benefits you received to arrive at your provisional income.

Limits

Once you find your provisional income, you can determine whether you exceed the predetermined thresholds, which depend on your marital status. For tax year 2015, if you're single, you can make up to \$25,000 in provisional income before paying taxes on Social Security income. If you make between \$25,000 and \$34,000, you may be subject to taxation on up to 50 percent of your Social Security income, while a provisional income of \$34,000 and above may subject you to up to 85 percent taxation.

For married couples filing jointly, the numbers shift slightly higher: the 50 percent taxation threshold is \$32,000, and the 85 percent threshold is \$44,000. Fortunately, you will never owe taxes on 100 percent of your Social Security income, regardless of your provisional income and filing status.

Taxable Social Security Income (taken from www.ssa.gov)		
Percentage of benefits taxable	Single filers provisional income	Married filers provisional income
0%	Less than \$25,000	Less than \$32,000
Up to 50%	\$25,000 – \$34,000	\$32,000 – \$44,000
Up to 85%	\$34,000+	\$44,000+

A married couple filing separately may have to pay taxes on 85 percent of their Social Security income, no matter how low their provisional income is, so filing separately is not a viable option for those trying to avoid the tax. The only situation that this does work in is when a couple did not live together for part of the year.

Examples

Say you and your spouse each earned \$12,000 at your part-time jobs this year. You also earned \$15,000 in investment income, and you received a total of \$24,000 in Social Security benefits. Your provisional income is \$51,000. We arrived at this number by adding your wages, interest income and half of your Social Security benefits. As a married couple filing jointly, \$51,000 is above both thresholds, so you might owe taxes on 85 percent of your \$24,000 Social Security benefit.

If you were single, still earned \$12,000 this year, received \$10,000 in investment income and \$10,000 in Social Security benefits, your provisional income is \$27,000. In this example, you may have to pay taxes on 50 percent of your Social Security benefits.

How to file

If you owe taxes on your Social Security benefits, you'll have to use Form 1040 or Form 1040A. Use Form SSA-1099, which you should receive prior to filing, to help determine your provisional income. This form shows the amount of benefits you received in a given tax year. [IRS Publication 915](#) contains a worksheet that can help you estimate the amount of taxable Social Security income you have and how much you owe. When you do determine what percentage of benefits you owe taxes on, those benefits are taxed at your regular income rate. If it would be helpful to you, you may be able to pay your Social Security benefits taxes via quarterly estimated tax payments or choose to have taxes withheld throughout the year.

Tax strategies

The best way to minimize your Social Security taxation is to consult with an advisor or tax professional. However, there are also several rules of thumb that may work for your situation:

- Try to accelerate income into a single year to avoid paying high taxes over a number of years.
- If you're close to the threshold, hold off accepting income until the following year, if possible.
- Contribute to pre-tax 401(k) or IRA accounts to shelter cash savings from tax.
- If you're converting a traditional IRA to a Roth account, it may be helpful to spread the conversions over several years.
- Delay claiming Social Security benefits until after full retirement age.
- Delay withdrawing from retirement accounts until necessary.
- If you're still working, full or part time, consider decreasing your hours to lower your wage income.

April is a great month to . . .

April always begins with an emphasis on practical jokes. This year the joke was on us, as mother nature brought snow to the Northeast shortly into April, making us all question the state of our environment. It is therefore fitting that later this month we celebrate two holidays that bring attention to our planet: Earth Day is April 22 followed by Arbor Day on April 29th. Both holidays embrace the environment and our role in maintaining the planet we live on.

Learn more at Earthday.org and the Arbor Day Foundation

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