ClientLine®

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TAX REFORM AND YOU

In the wake of the Tax Cuts and Jobs Act of 2017, individuals will notice a number of changes in federal tax rates, deductions and credits. Most will apply beginning in tax year 2018 and sunset after 2025. Here are a few highlights:

TAX RATES LOWER

The headline here is individual tax rates are lower, while brackets are expanded. The accompanying graphic shows the difference for married taxpayers filing jointly. Taxpayers filing as single, married filing separately or head of household will enjoy similar reductions.

MARRIED FILING JOINTLY

2018 TAX RATE	RANGE	2017 TAX RATE	RANGE
10%	$0-$19,050	10%	$0-$18,650
12%	$19,051-$77,400	15%	$18,651-$75,900
22%	$77,401-$165,000	25%	$75,901-$153,100
24%	$165,001-$315,000	28%	$153,101-$233,350
32%	$315,001-$400,000	33%	$233,351-$416,700
35%	$400,001-$600,000	35%	$416,701-470,700
37%	more than $600,000	39.6%	more than $470,700

WIN SOME, LOSE SOME

The standard deduction is also up considerably, but the personal exemption disappears. For example, taxpayers filing jointly will see the standard deduction rise from $12,700 in 2017 to $24,000 in 2018 when exemptions ($4,050 each in 2017) go away.

The child tax credit doubles to $2,000, with qualifying income thresholds rising sharply to $400,000 for couples filing jointly and $200,000 for other tax filers. However, kiddie tax changes could raise taxes owed for some. Unearned income for children under age 18 will be taxed as trust and estate income, not as parents' income as before.

YOUR ADDRESS MATTERS

Some taxpayers won't be able to deduct all their real estate, sales and local income taxes. They are capped at $10,000. The mortgage interest rate deduction (on loans originated after December 15, 2017) applies only on the first $750,000 of a mortgage. The deduction applies to interest on mortgages up to $1 million taken before then. Home equity loan interest is not deductible starting in tax year 2018.

THESE DISAPPEAR

Deductions for tax preparation, alimony and moving expenses are among the miscellaneous itemized deductions that will disappear. However, you can deduct charitable contributions up to 60% of income (it was 50% in 2017). The medical expense deduction threshold is also lowered for 2017 and 2018.

ODDS & ENDS

And there's much more, including:

- Repeal of the health insurance mandate (after 2018);
- 529 accounts may be used for tuition for elementary and secondary education;
- The Alternative Minimum Tax (AMT) has higher exemptions and phase-outs;
- The estate tax exemption doubles.

There are additional changes, so talk to your tax professional to learn more.

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Taxes & Business

Federal tax reform was most dramatic in the business arena, where the biggest change is a sharp drop in the top corporate income tax rate to a flat rate of 21% and a repeal of the corporate Alternative Minimum Tax (AMT).

Repatriated Profits

As a sweetener for multinational companies to bring their cash back into the U.S., the new tax law will drop the repatriation tax rate from 35% to 15.5% on untaxed (by the U.S.) cash-equivalent profits and 8% on illiquid assets. Additionally, most U.S. companies no longer will pay taxes on the amount of income taxed by other countries.

Deductions Pared Back

In return, corporations will see interest deductions capped at 30% of adjusted gross income, although excess deductions may be carried forward. Business entertainment deductions will disappear, as well as those for providing employees with transportation benefits.

See page 3 for info about a new tax break for pass-through businesses.

TAX CHANGES AND YOUR INVESTMENTS

The new tax law has a number of changes that affect individual and business taxpayers, but in the end, the tax treatment of investments was hardly touched.

CAPITAL GAINS TAX

One big change is how the long-term capital gains tax rate is determined. Previously, this rate was based on income tax brackets. Starting in 2018, long-term capital gains – profits on the sale of assets held for more than one year – will be taxed according to taxable income levels, but at the same rates as before.

Joint tax filers with a taxable income of less than $77,200 pays 0% on realized long-term capital gains. The same couple pays 15% on long-term gains between the 0% limit and $479,000, and gains over this amount are taxed at 20%.

KIDDIE TAX

Income from investing in Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) accounts will be taxed differently. Investment income of over $2,100 in the name of a child (younger than 19 or, if a full-time student, 24) was previously taxed at the parents' tax rate. Now, it will be taxed at the trusts and estate tax rate.

OTHER CHANGES

If you contribute to a 529 plan, you can use up to $10,000 annually for qualified primary and secondary education costs. Previously, the plan was strictly a college investing vehicle. Also, tax-deferred, like-kind exchanges of tangible assets are no longer allowed, except for real estate.

NOT AFFECTED

Congress considered a handful of other moves that would have affected individual and retirement investors, but most other tax breaks were eventually left alone. This includes the tax-deferred status of contributions to qualified retirement plans and the allowable amounts that qualify for favorable tax treatment. Talk to us to learn more.

Client PROFILE ••••

Phil owns bonds and shares of bond mutual funds, but worries about how rising interest rates will affect his income now and in the future. He wonders if he should hold on to these investments or trade them for higher-earning bonds and mutual fund shares.

After years of paltry returns, interest-sensitive investments are seeing the beginning of a bump in rates. However, rising interest rates can affect Phil's bond investments in ways he might not anticipate.

When interest rates rise, the yields on new bond issues typically rise with them. When newer issues pay higher interest rates, you typically have to accept a lower yield than first promised for older bonds sold before maturity because their rates are no longer as attractive. If, however, you buy a bond and hold it to maturity, you will receive the yield promised when you bought the investment, regardless of current interest rates.

Bond mutual funds offer no such promises because fund managers trade regularly and often sell holdings before maturity. Thus, if you own bond fund shares, you could earn more or less than the going rate for bonds.

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

10 SMART WAYS TO SPEND TAX SAVINGS

How will you spend the extra money that the tax reform added to your take-home pay? Consider the following smart choices:

1. Pay down your highest-rate credit cards;
2. Create or add to your emergency fund;
3. Bump up your retirement plan contributions at work and through an IRA;
4. If you have access to a Health Savings Account and qualify for one, contribute to it;
5. Donate more to charity. New tax laws let you contribute more as a percentage of your income;
6. Invest in yourself by taking classes to increase or add a job skill;
7. Contribute to a 529 plan to help pay for your children's and grandchildren's education;
8. Invest in technology that will make your tech tools more secure;
9. Join a gym, because a healthier, fitter you may incur smaller healthcare bills;
10. Take a break. It's okay to take a vacation, and disconnect completely from work.

PASS-THROUGH INCOME TAX

One of the highlights of the Tax Cuts and Jobs Act of 2017 is the new treatment of pass-through income.

WHAT IS IT?

Pass-through income is business income that is "passed through" and taxed at a taxpayer's individual income tax rate. This contrasts with the treatment of a business structured as a C corporation, whose income is taxed at a corporate tax rate.

WHAT'S NEW?

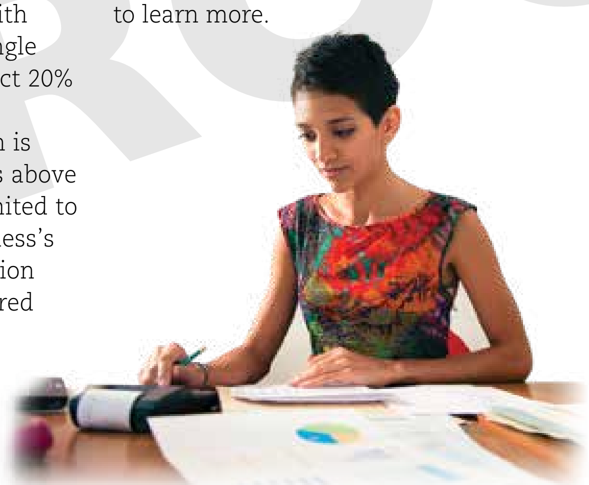
New federal law now allows taxpayers to deduct a portion of pass-through business income on their tax returns. Joint filers with income up to $315,000 (and single filers up to $157,500) can deduct 20% of this type of taxable income starting in 2018. The deduction is more complicated for tax filers above that threshold, because it's limited to the greater of 50% of the business's W-2 wages or another calculation that includes the cost of acquired property — or 20% of their business income, if that's less. The deduction phases out between $315,000 and $415,000.

WHO GETS IT?

Any sole entrepreneurship or business structured as a limited liability company (LLC), partnership or S corporation.

BY THE WAY

The tax savings this pass-through provision offers taxpayers won't necessarily apply to state taxes, which may continue to use different formulas to determine your state tax liability. Talk to your tax professional to learn more.



....Q&A

Q **I'm interested in investing in foreign or international stocks. How risky is this?**

A As a real estate agent might say, it depends on location, location, location. Stocks from developed countries, such as those in Europe, trade much like U.S. stocks. As with any stocks, their prices will rise and fall, but the markets themselves are mature. Stocks from emerging countries like China and India are riskier, and frontier countries' stocks are even riskier and less predictable. As with any investment strategy, you need to consider your risks versus potential rewards. Many balanced portfolios include international stocks, but it is up to you to do your homework before investing.

Q **I live in a high-tax state, where I can no longer deduct all my state and local taxes, so I'm considering a move. Any advice?**

A If it's only about money, there are states without a state income tax and with low real estate taxes, but they may have high sales taxes. There are also other factors to consider beyond money, including how you might adapt to moving to a strange locale and leaving friends and loved ones. Your best bet? Try out potential new locales before making any move permanent. And remember tax laws can change, regardless of location.

ClientLine® SHORT BITS

> **INCOME = WELLNESS.** More employers are offering workplace wellness programs, but you have a better shot at one if you have a higher income. According to the Department of Labor, 63% of the highest-paid 10% of private industry employees had access to a workplace-sponsored wellness program. Only 15% of the lowest-paid 10% employees had access.

> **RETIREES' HEALTH EXPENSES HIGH.** According to a recent article by the Employee Benefit Research Institute, to have a 50% chance of covering health insurance premiums and prescription drugs through retirement, a 65-year-old man needs $73,000 in savings and a 65-year-old woman needs $95,000. For a 90% chance, increase those figures to $131,000 and $147,000, respectively.

> **BONUS COVERAGE.** According to the Department of Labor's Bureau of Labor Statistics, 38% of private industry workers had access to bonuses that weren't related to production in 2017. Some reasons for bonuses included longevity, the holidays and referrals. Workers in the information, finance and insurance, and professional and technical sectors were most likely to receive the bonuses.

> **IRS RAISES STANDARD MILEAGE RATES.** The Internal Revenue Service raised its standard mileage rates used to calculate the deductible costs of operating a vehicle for business, charitable and medical purposes in 2018. You can deduct 54.5 cents per business mile, up a penny from last year. Deduct 14 cents, unchanged from 2017, for each mile driven in service of charitable organizations.