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SECURING TOMORROW

INSIDE

The Tax Cuts and Jobs Act of 2017

by Clark Kendall

How will the Tax Cuts and Jobs Act impact you? Well, the answer is…it depends. Most people will see a reduction in their actual tax rate and may no longer need to itemize deductions if they fall below the new higher thresholds. There are wide variances in how the tax is calculated depending on your family composition and the types of deductions you were accustomed to using to reduce your overall tax due.

Most notably, the act made the corporate tax cut permanent by reducing the top marginal tax bracket from 35% to 21%. Whereas the individual income tax changes are temporary. Another aspect is the impact it has on self-employed and small business owners who have pass-through business income.

Nearly all marginal tax brackets will be reduced by 1-4% and will continue to be adjusted for inflation in 2019 until the law expires at the end of 2025. The marriage penalty has been nearly eliminated in that if you and your spouse earn a combined $200,000, you would be in the 24% tax bracket along with single filers earning $100,000.

A significant change was made in how much taxable income is calculated in the first place. Currently, you and each dependent have a Personal Exemption of $4,050. Under the new act, there will be no personal exemptions (those of you earning joint income over $311,000 already had a gradual reduction of exemptions). Which means right off the bat, if you're married and have children, you receive a greater reduction to your taxable income than if you're single.

To help offset this effect, the act increased the Standard Deduction for single filers from $6,350 to $12,000, joint filers from $12,700 to $24,000 and head of household filers from $9,300 to $18,000. In addition to your filing status, if you're accustomed to itemizing deductions and you could itemize more than the standard, then you paid less tax. The increased standard deductions is the catalyst as to whether or not your taxes may be lower or higher under the new law depending on your personal financial situation and family make up. While this is not a complete list, here are highlights on some of the various areas of itemized deductions which have changed:

1. Medical Expenses – currently, these are deductible above 7.5% of AGI if you (or your spouse) is 65 and over and 10% of AGI if you're not. In 2017 and 2018, medical expenses will be deductible above 7.5% of AGI regardless of age. However in 2019 and beyond, the threshold will be 10% of AGI at all ages.

2. Charitable Contributions – will continue to be deductible. In fact, the limit of deductibility has been increased to 60% of AGI from 50%.

3. Miscellaneous expenses subject to the 2% floor – currently you could deduct investment management fees, legal fees, tax preparation fees and a hodge-podge of other items which fell into this "Miscellaneous" category. Unfortunately, this category has been eliminated.

4. State, local and property taxes – this category lumps together two previously separate categories. The new deduction will be limited to a maximum $10,000.

5. Home mortgage interest – if you have a

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Home Equity Line of Credit (HELOC) or Home Equity Loan, 2017 will be the last year you can deduct the interest on that loan. Additionally, if you plan to buy a home, you'll now be limited on the amount of interest you can deduct as the new cap will be on a $750,000 loan, down from a $1,000,000 loan. (Existing mortgages are grandfathered).

6. Alimony – beginning in 2019, alimony payments will no longer be deductible and the recipient will no longer report them as income. This only applies to new legal arrangements, all existing arrangements are grandfathered

7. Tuition and Fees – the deduction of up to $4,000 of expenses such as college tuition, fees and books for yourself or dependent child expired at the end of 2016 and the new bill did not renew it.

Additional changes that affect many people:

1. Retirement plan employee contributions – Increased by $500 from $18,000 to $18,500. A $6,000 Catch-Up contribution is still allowed for participants 50 and older

2. Defined Contribution Plan – the overall maximum has increased by $1,000 to $55,000 – that's good news for our SEP IRA and i401k clients!

3. Gift Tax Exemption – for those who like to give to others without the fuss of filing a gift tax return, the exemption amount has increased by $1,000 from $14,000 to $15,000 per donor, per recipient. If you're a couple wanting to help your daughter and her new spouse buy a house next year, you can give them up to $60,000.

4. 529 Plan Flexibility – 529 plan accounts will allow for expenses of elementary or secondary public, private or religious school expenses up to $10,000 per year per student. One can still fund a 529 plan with 5 years of excludable gifts which will be $15,000 per year. So one can contribute up to $75,000 in one year to "jump start" that 529 savings plan or a couple could contribute up to $150,000.

Credits – to help offset the impact from the loss of personal exemptions, the new bill made two significant changes.

1. Child Tax Credit – doubled from $1,000 to $2,000 per child under age 17. Additionally, more people will qualify for the credit as they increased the income threshold to $200,000 AGI for individuals and $400,000 for married filers.

2. Qualifying Dependent Credit – a new $500 credit will be available if you have a dependent who is over 17 whether it's a child or elderly parent who lives with you.

For better or worse:

1. Alternative Minimum Tax (AMT) is essentially gone – both the AMT exemption and income thresholds were increased substantially. If you're used to getting caught in the AMT trap, that may no longer be the case.

2. Estate Tax Exemption - doubled to $11 million per person that one can exclude from Federal Estate taxes when the pass away.

3. Kiddie Tax – If you have investments in your dependent child's name, you're familiar with this tax which applies any unearned (ie investment) income over $2,100 to your income tax return so it's effectively taxed at your own

Tax brackets for single filers

Current law		Final plan	
10%	$0–$9,325	10%	$0–$9,525
15%	$9,326–$37,950	12%	$9,526–$38,700
25%	$37,951–$91,900	22%	$38,701–$82,500
28%	$91,901–$191,650	24%	$82,501–$157,500
33%	$191,651–$416,700	32%	$157,501–$200,000
35%	$416,701–$418,400	35%	$200,001–$500,000
39.6%	$418,401 or more	37%	$500,001 or more
Standard deduction:	$6,350	Standard deduction:	$12,000
Personal Exemption:	$4,050	Personal Exemption:	Eliminated

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http://www.businessinsider.com/tax-brackets-2018-trump-tax-plan-chart-2017-12

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income tax rate. Under the new law, there will be an exemption of $2,550 (instead of $2100) but the tax will be based on the new Trust tax rates which may be higher than your personal income tax rate. This is especially pertinent if your child is the recipient of a large Inherited IRA distribution or has a large UGMA portfolio and has unearned income over $9,150.

Self-employed and small business owners will receive a 20% deduction for "Qualified Business Income" which means a business owner can immediately reduce their income by 20% effectively dropping them from one marginal tax bracket to another. For example, if you're a married owner whose business earned $350,000, you would normally be in the 32% tax bracket, but at $280,000 (20% less) you're now in the 24% bracket. There are a lot of rules around this deduction and it'll take time for us and CPAs to learn them, but the idea was to encourage small business owners to invest in their businesses and get a break from the income tax rate which was higher due to business income rather than earned income like if they were employees. Here are some highlights:

1. This deduction expires the end of 2025 like the individual income tax changes.

2. QBI deductions are relevant if you are self-employed as a sole proprietor, partner or owner of an LLC, S corporation or Partnership.

3. For some service-related businesses, the QBI deductions are phased out at income levels of $157,500 - $207,500 for individuals and $315,000 - $415,000 for married filers. They're defined as "specified service trades or business" which provide service in the legal, medical, financial, accounting, athletics and consulting businesses – or where the primary asset of the business is one's skill or reputation. In other words, the type of business you have is an important starting point to learn if this applies to you and to what extent. On the flip side, if you're a partner in a large and profitable firm which cannot take advantage of QBI deductions, you may be better off incorporating to receive the new 21% tax rate on C-corporations.

In addition to the permanently lowered tax bracket for C Corporations, the new act opens the doors for repatriating foreign earnings and assets over time and at lower tax rates. Bringing back cash to the US will most likely have a positive impact on global US companies. Efficient use of corporate funds worldwide should have a positive impact on their stock price. Lower corporate tax rates should also help small and medium-sized companies grow positive earnings and thus improve their stock prices.

Overall, we have a lot to learn about this new tax act and will review with our clients how these changes affect their own personal financial situation. If you're curious to see how your taxes may be reduced, there are online calculators available at cnn.com and nytimes.com which can give you a ballpark estimate. If you do find yourself saving a few bucks a month, we hope you'll use it to improve your financial security. Remember, these changes expire in 8 years.

Tax brackets for married taxpayers filing jointly

Current law		Final plan	
10%	$0–$18,650	10%	$0–$19,050
15%	$18,651–$75,900	12%	$19,051–$77,400
25%	$75,901–$153,100	22%	$77,401–$165,000
28%	$153,101–$233,350	24%	$165,001–$315,000
33%	$233,351–$416,700	32%	$315,001–$400,000
35%	$416,701–$470,700	35%	$400,001–$600,000
39.6%	$470,701 or more	37%	$600,000 or more
Standard deduction:	$12,700	Standard deduction:	$24,000
Personal Exemption:	$8,100	Personal Exemption:	Eliminated

http://www.businessinsider.com/tax-brackets-2018-trump-tax-plan-chart-2017-12

The Year of the Bull Market in Review

By Jason Tkach

THE QUARTER IN BRIEF

The final quarter of 2017 was a great one for stocks: the Dow Jones Industrial Average, S&P 500, and Nasdaq Composite all posted 3-month gains of better than 6%. Landmark federal tax reforms were approved and signed into law. Bitcoin was welcomed to two major futures exchanges, and it surged and plunged. Oil and gold prices rose. Home buying accelerated, even though mortgages grew more expensive and listings remained thin. Domestic indicators showed continued strength in consumer spending and hiring as well as a pickup in economic growth. The Federal Reserve made another interest rate hike and started to reduce its balance sheet, while the European Central Bank prepared to wind down its long-running stimulus. All in all, it was an eventful and positive quarter for investors.

DOMESTIC ECONOMIC HEALTH

Without question, the fourth quarter's major story was the passage of the Tax Cuts & Jobs Act of 2017. The new law created night-and-day changes in the Internal Revenue Code, nearly all effective January 1, 2018. Its most dramatic changes were arguably the ones benefiting businesses: it slashed the corporate tax rate to 21% and let the majority of pass-through companies deduct the first 20% of income. The legislation also took the individual estate tax exemption north to $11.2 million, put the standard deduction at $12,000, and did away with dozens of longstanding deductions and the personal exemption. In 2019, it removes the individual mandate for health insurance. Most of the above changes are set to expire after 2025, barring renewal in Congress.

Consumer spending improved in the quarter. The Department of Commerce recorded a (revised) gain of 0.2% for October and a 0.6% rise in November. Retail sales were up 0.4% in October and 0.8% a month later. Those numbers reflect consumer optimism, affirmed by fall readings for the key U.S. consumer confidence indices.

October and November were the best months for job creation since mid-2016, with the Labor Department recording net payroll growth of 244,000 hires in the former month and 228,000 in the latter. The main jobless rate reached 4.1% during November, while the rate for both unemployment and underemployment (the U-6) ticked up to 8.0%.

Speaking of the central bank, it started unwinding its vast securities portfolio and hiked the federal funds rate another quarter point in December, resulting in a new target range of 1.25%-1.5%. Among the economic indicators that likely fostered that decision was the final federal government assessment of third quarter growth: a strong 3.2%. The Fed also raised its projection of 2018 GDP to 2.5% from its previous forecast of 2.1% and its latest dot-plot indicated three rate hikes for the new year.

GLOBAL ECONOMIC HEALTH

While Spain grappled with the Catalonia region's desire for independence, and the United Kingdom contended with European Union demands involving its Brexit, there was much good news concerning the overall E.U. economy. The jobless rate across its 28 member countries continued to descend, falling to 7.4% in October. Inflation, barely above 1.0% at the end of 2016, increased to 1.8% in November. The European Central Bank (ECB) kept interest rates steady in the quarter and announced it would buy fewer bonds per month; its monetary stimulus is expected to last through the third quarter of 2018. In December, the ECB projected 2.3% growth for the E.U. economy in 2018.[9,10]

> The fourth quarter's major story was the passage of the Tax Cuts & Jobs Act of 2017. The new law created night-and-day changes in the Internal Revenue Code.

Economic data streams from the Asia-Pacific region offered plenty of positive news this fall. While the Caixin/Markit manufacturing PMI for China reached a 5-month low of 50.8 in November, manufacturing PMIs in Asia's leading electronics producers were up. Japan's factory PMI hit a peak unseen since 2014 in November, while manufacturing PMIs in South Korea and Taiwan respectively displayed their best readings since mid-2013 and mid-2011. South Korea's Bank of Korea raised interest rates in the fourth quarter, becoming the first major central bank in Asia to hike in three years.

WORLD MARKETS

The MSCI Emerging Markets index had another fine quarter, increasing 7.09% (it gained 34.35% for the year). Its sibling, the MSCI World, was up 5.14% in the third quarter (and up 20.11% for 2017). Big gains were the order of the

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How to Prepare for Medicare

By Carol Petrov

Whether you are planning to retire early or postpone Social Security until 70, it's important to remember that applying for Medicare is a completely separate ritual and one that may require you to do a little homework. The first thing to remember is that in most cases, you'll need to enroll in at least Medicare A when you turn 65. Whether or not you need to sign up for Medicare B will depend on if you're currently working and if so, does your employer have at least 20 employees. If you are unsure, please check with your employer's benefits administrator. While it's not required for you to enroll in Medicare B, failure to enroll when you are eligible means paying an extra premium penalty for life.

Medicare gives you a 7-month window in which to enroll initially. That window opens three months prior to the month in which you turn 65 and closes three months after the month in which you turn 65. Medicare is also available for those who apply for Social Security Disability benefits prior to age 65.

Here's where it gets tricky when you're still employed at 65. If you are approaching your 65th birthday, your employer (or your health plan administrator) may require you to enroll in it right away. If yours does not, then you can sign up for Medicare during a "special enrollment" period which begins when you retire and ends 8 months later.

By the way, COBRA does not meet Medicare's definition of employer-sponsored health insurance. If you are on COBRA and close to age 65, mark your calendar so you do not miss this important 7 month window of "initial enrollment."

The next thing to keep in mind is that Medicare A and B do not cover all of your needs. Medicare A is free and covers some hospital care, hospice and a little bit of skilled nursing care. Medicare B comes with a monthly cost but is the part that covers 80% of approved costs for doctor's visits, physical therapy, labs and x-rays. That leaves the remaining 20% of approved costs, vision, dental and prescriptions – not to mention the ability to see a doctor who does not take Medicare or coverage if you have a medical emergency outside of the U.S. To meet these other needs, many people purchase a Medigap plan which comes in about 8 different styles plus there's something called Medicare Advantage which combines A and B with prescription coverage to simplify the overall customer experience.

> "Keep in mind that Medicare A and B do not cover all of your needs."

There are some excellent free resources to begin to familiarize yourself with this process and since health insurance will be one of your most expensive and important aspects of your retirement picture, it's good to do your homework and get a sense of your needs and the costs for various levels of coverage. Keep in mind that health insurance plans vary by state, too, so if you're looking to re-locate in retirement, you should be aware of your options in that state. To start, we recommend visiting www.medicare.gov and you can also find a variety of useful videos on You Tube via https://www.youtube.com/user/medicaremadeclear.

Additionally, states offer free counseling and seminars through their state health insurance assistance program (SHIP). In our area, they've teamed up with the Jewish Council for Aging in Rockville and offer free seminars around the county throughout the year – one's coming up in Olney on January 25th! Their website is https://medicareabcd.org/.

Even with its user-friendly website and plenty of online third-party guides to help those new to it, Medicare remains intricate; its nuances, hard to grasp. An insurance professional well versed in Medicare enrollment, benefits, and regulations will make the process simpler for you. If you would like a referral for one to help you figure out the best plan for you, please give us a call.

We guide our clients on a path to realize their dreams of financial security.

-Kendall Capital Value Statement #4

The Many Benefits of a Roth IRA

By Madolynn Stemmer

The Roth IRA changed the retirement savings landscape when it was established in the Taxpayer Relief Act of 1997 becoming a fixture in many retirement income strategies. This analysis offers a closer look at the trade-off you make when you contribute to a Roth IRA versus other types of investment accounts.

When compared to a traditional IRA, the major trade-off of contributing to a Roth IRA means you do not make a tax-deductible contribution that year (assuming you're in a position to make tax-deductible IRA contributions). Instead, you contribute with after-tax or "take home" money. However, the investments grow tax-deferred in the same way. Meaning, if the account grows 7.5% in a year, you don't have to pay taxes on any of the growth and thus it compounds into next year, the year after, etc. If you feel a Roth IRA is too restrictive when compared to a regular investment account, read-on, you may be surprised.

In 2018, like 2017, the Roth IRA contribution limit is $5,500, with an additional $1,000 "catch-up" contribution allowed for those 50 and older. (That $5,500 limit applies across all your IRAs, incidentally, should you happen to own more than one.) You can contribute to a Roth IRA so long as you have earned income of at least as much as you plan to contribute but no more than the income limits, which change from year to year.

Also, Roth IRAs do not have Required Minimum Distributions. As a result, unlike a traditional IRA, you can continue to add to a Roth at any age (so long as you earn income) and are never forced to take withdrawals. When you pass away, your heirs will have to take an annual distribution, however, they will be tax-free for them, just as the withdrawals are tax-free for you!

You can also make contributions for a previous year up until the tax filing deadline. In other words, the deadline for a 2017 Roth IRA contribution is April 17, 2018. One important point which is often forgotten is that the tax filing deadline is a hard deadline to make Roth IRA contributions. If you are accustomed to filing an extension and doing your taxes by October, you still need to make contributions by April 17th (or April 15th as usual).

There are pros and cons to making your contributions early in the year or waiting until the next year. If you are close to the income limits, then you should wait to fund your Roth IRA until you've gathered your W2 and other income statements early the following year. However, if you are far from those thresholds, you should go ahead and make calendar year (current) contributions early or monthly to take advantages of the market fluctuations throughout the year.

The maximum you can contribute depends on your age, income and whether you are a married or single tax filer. In 2017, contribution phase out range is between $118,000 and $133,000 (the maximum amount you can contribute depends on where your income falls in this range). The phase out range for joint filers is $186,000 - $195,000.

In 2018, those ranges increase slightly by $2,000 for single filers and $3,000 for married filers. It's important to understand that your AGI is your income after retirement plan contributions. If you contribute to a 401k or 403b, those contributions reduce your income which may make you eligible to contribute to a Roth IRA. Also, if your spouse doesn't work you could still fund a Roth IRA for him or her thereby doubling the amount of money you can add in a given year.

When it comes to taking money out of your Roth IRA, it's important to distinguish earnings from contributions. Distributions of earnings from your Roth IRA, are tax-free as long as you are age 59½ or older and have owned the Roth IRA for at least five tax years. The IRS calls such tax-free withdrawals, qualified distributions.

Even if you can only set aside $1,000 this year, you should open a Roth IRA to start that 5 year schedule. If you withdraw earnings before you turn 59 ½, they are treated as taxable income, and there may be an additional 10% early withdrawal tax penalty. There are many exceptions to this rule which determine whether you avoid the penalty, tax or both on withdrawals for medical expenses, a first-time home purchase (up to $10,000), disability or education expenses for yourself or your children.

However, if you withdraw an amount equivalent to your total Roth IRA contributions, that withdrawal is tax-free and penalty-free for any reason, even if you're under 59 ½! If you know the rules of the Roth, you see it's not as restrictive as you might think. If you're interested in learning if contributing to a Roth IRA makes sense for you, please give us a call. If you're already retired, we can discuss Roth conversion strategies instead.

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quarter: take the Nikkei 225, which had a price return of 11.83% across the last 13 weeks of 2017. Other fine performances: S&P/ASX All Ordinaries, +7.35%; Sensex, +8.86%; Hang Seng, +8.58%; FTSE 100, +4.27%; S&P/TSX Composite, +3.67%.

COMMODITIES MARKETS

Bitcoin futures trading began on both the CME and CBOE Global Markets exchanges in December. That landmark moment further encouraged the cybercurrency's runaway rally, punctuated by a scary plunge: bitcoin hit $5,000 on October 13, approached $7,500 on November 8, hovered around $10,000 on December 1, neared $20,000 on December 18, and ended the year just above $14,600. Some journalists and economists wondered if bitcoin fever amounted to a modern-day Dutch tulip mania, while others were more enthusiastic.

"During the fourth quarter, Bitcoin was welcomed to two major futures exchanges, and it surged and plunged.

Palladium was the other big commodities story of the year; it advanced 13.8% in the fourth quarter on its way to a 2017 gain of 54.3%. Two other major commodities outperformed it in the quarter: cotton rose 16.0%, while WTI crude improved 15.7%. Sugar rose 7.5% for the fourth quarter; silver, 2.2%; platinum, 2.0%; gold, 1.6%. As for fourth quarter retreats, the U.S. Dollar Index slipped 0.8%; soybeans, 2.7%; coffee, 4.1%; corn, 4.6%; cocoa, 7.0%; wheat, 8.5%; natural gas, 10.5%.

Regarding the fourth quarter settlements that perhaps mattered most, gold ended the year at $1,305.10; silver, at $16.98; WTI crude, at $60.10.

REAL ESTATE

Mortgage rates climbed higher in the quarter. Freddie Mac's December 28 Primary Mortgage Market Survey revealed the following interest rates: 30-year fixed, 3.99%; 15-year fixed, 3.44%; 5/1-year adjustable, 3.47%. Compare the numbers from the September 28 PMMS: 30-year fixed, 3.83%; 15-year fixed, 3.13%; 5/1-year adjustable, 3.20%.

Home buying emerged from a third quarter slump in the fourth quarter. Resales rose 2.4% in the tenth month of the year and then 5.6% in the eleventh, according to the National Association of Realtors. (NAR's pending home sales gauge, incidentally, was up 3.5% in October, but just 0.2% in November.) New home sales, seemingly always volatile, were 1.7% lower in October, but jumped 17.5% in November.

LOOKING BACK…LOOKING FORWARD

As the table below shows, the blue chips had a phenomenal quarter, outpacing Wall Street's two other major stock benchmarks. The Dow settled at record highs 70 times last year; the S&P 500, 62 times. The gains in the fourth quarter made 2017 the best year for stocks since 2013. The Russell 2000 rose 13.14% for the year, while the CBOE VIX slumped 21.37%. The year-end results: Dow, 24,719.22; Nasdaq, 6,903.39; S&P, 2,673.61; Russell, 1,535.51; VIX, 11.04.

% CHANGE	2017	Q4 CHG	1-YR CHG	10-YR Annualized Return
DJIA	+25.08	+10.33	+24.72	+8.49
NASDAQ	+28.24	+6.27	+27.09	+15.81
S&P 500	+19.42	+6.12	+18.87	+8.08
REAL YIELD	12/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.44%	0.55%	-0.73%	1.78%

Sources: wsj.com, bigcharts.com, treasury.gov – 12/29/17
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

2018 Retirement Plan Contribution Limits

2018 Contribution Limits for 401(k), 403(b), TSP, and most 457 Plans

- $18,500 for those under age 50
- $24,500 for those age 50 and older

2018 Contribution Limits for SEPs and i401(k) Plans

- $55,000 maximum for employer/employee contributions

2018 Contribution Limits for IRA and Roth

- $5,500 for those under age 50
- $6,500 for those age 50 and older

2018 Phase-Out Ranges for Dedcutible Traditional IRA Contributions

- $63,000 - $73,000 for single filers participating in an employer-sponsored retirement plan
- $101,000 - $121,000 for joint filers participating in an employer-sponsored retirement plan
- $189,000-$199,000 for joint filers where you do not contribute to an employer-sponsored retirement plan but your spouse does.

2018 Contribution Limits for Health Savings Accounts (HSA)

- $3,450 for individuals under age 55
- $4,450 for individuals age 55 and older
- $6,900 for families under age 55
- $7,900 for families age 55 and older

*Legislation in the State of Maryland prevents residents from contributing to HSAs in 2018. The state assembly will address this issue in the coming months.

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