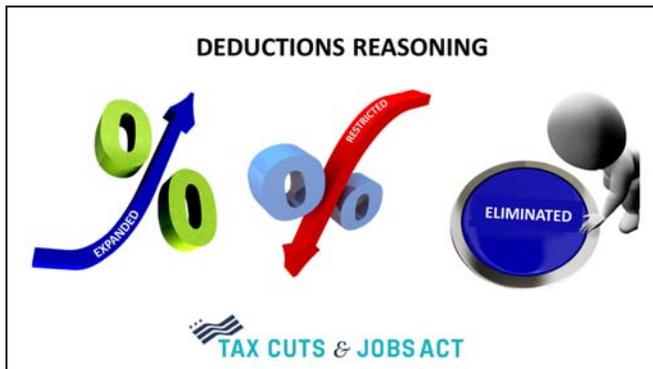


# WEALTH MANAGEMENT REPORT

## A Guide To The New Rules On Tax Deductions In 2018

Uncle Sam giveth, and Uncle Sam taketh away. The new federal tax code, which went into effect in 2018 and affects the return you'll file in spring 2019, lowers taxes by expanding some deductions, but restricts or outright eliminates others.

Deductions lower your taxable income so you pay less tax. Here's how deducting items from your income were expanded, restricted, or eliminated.



### EXPANDED DEDUCTIONS

**Standard deduction.** The standard deduction is the amount you can subtract from your taxable income if you don't itemize — that is, individually deduct items like mortgage interest, charitable donations, and car loans. Nearly doubling the standard deduction to \$24,000 for joint filers and \$12,000 for singles pushes it up from \$12,700 and \$6,350, respectively. Fewer than half of taxpayers who itemized their 2017 return are expected to itemize their 2018 return. If you file using the standard deduction, preparing your return will be much simpler. If the standard deduction is less than the total of your itemized deductions, you'll still want to file by itemizing, subject to the rules below.

**Medical expenses.** If you itemize deductions, medical expense deductions

will be more generous. For tax years 2017 and 2018, medical outlays in excess of 7.5% of your adjusted gross income are deductible. Starting in 2019, the threshold rises to the previous level of 10%. Congress is widely expected to consider extending the 7.5% threshold or making it permanent.

**Alternative minimum tax.** This very unpopular parallel tax system has been reined in and will zap fewer

Americans in 2018. The AMT started in 1982 as an effort to reduce loopholes open to ultra-high-income earners, but its net gradually spread when it was indexed for inflation starting in 2013. Under the AMT, the standard deduction and itemized deductions, including state income taxes, are lost. With the

new law, your exemption — the amount you can subtract from your AMT liability — is much larger. Previously, \$54,300 was exempt for a single-filer and \$84,500 for a married couple filing jointly. Respectively, the exemptions increased by almost a third, to \$70,300 and \$109,400.

**Child tax credit.** This actually is not a deduction against your income. It's a credit on your tax bill. A credit reduces your tax bill dollar for dollar. The credit for children under age 17 was raised to \$2,000 from \$1,000.

### RESTRICTED DEDUCTIONS

**State and local taxes.** Lawmakers placed a \$10,000 cap per return on deductions for state and local taxes (SALT). Till now, the amount you could deduct for SALT levies was unlimited. If

## It's Hard To Beat The Annual Gift Tax Exclusion For Ease

The calls for tax reform are growing louder in Washington. Among other proposals, the Trump administration advocates a repeal of federal estate taxes. Yet even with that possibility looming, it's hard to go wrong by giving away assets to family members in lower tax brackets.

Not only will this reduce the size of your taxable estate, it will likely save income tax in the future, regardless of the fate of tax reform. Best of all, the gifts are sheltered from federal gift tax by the annual gift tax exclusion.

That exclusion covers the value of any gifts, including cash and securities, up to \$14,000 in 2017 and you can make gifts to as many people as you like. You don't even have to file a gift tax return. What's more, the annual exclusion is doubled for joint gifts made by a married couple, though you do have to file a gift tax return in this case.

The IRS recently announced that the exclusion will increase to \$15,000 per recipient for the 2018 tax year. The exclusion is indexed for inflation and is increased only in increments of \$1,000. The last hike was five years ago.

Therefore, if you and your spouse have four children and six grandchildren, say, you could give them each \$30,000 in 2018 for a total of \$300,000, without paying a penny of gift tax. Consider how this simple technique can benefit your situation.

(Continued on page 4)

# Bitcoin, Chasing Your Tail, And Investing

Thinking about Bitcoin? Could be a good time to hop on, right?

Probably wrong! Usually, by the time the average investor jumps on a gaudy, freewheeling bandwagon, it's too late. The price spike has already occurred. If the investment is a fad, a sickening plummet may well await you.

Bitcoin blasted to a record high at rocket speed, hitting \$19,783 on December 17, 2017, before plunging 25% in the next 10 days. The crypto-currency may yet be destined for greatness over the long-term, but its supersonic ascent and subsequent nosedive look much like other notorious investment fads.

In 1637, Dutch investors lost their bloomers on tulip bulbs. During tulip-mania, prices for bulbs reportedly rose from November 1636 to February 1637 by 2000%, according to academic research.

These objects of desire were flowers. It made no sense. The crash of the bulbs shattered lives and has ever since served as a beacon in

financial history, warning investors of the risk in chasing performance.

Investing in Bitcoin makes little sense considering that it is one of many crypto-currencies being mined on the Internet. The value of a crypto currency is set by supply and demand and supply is set by a software program that's not tied to a sovereign state. Transactions are easily hidden from tax authorities.

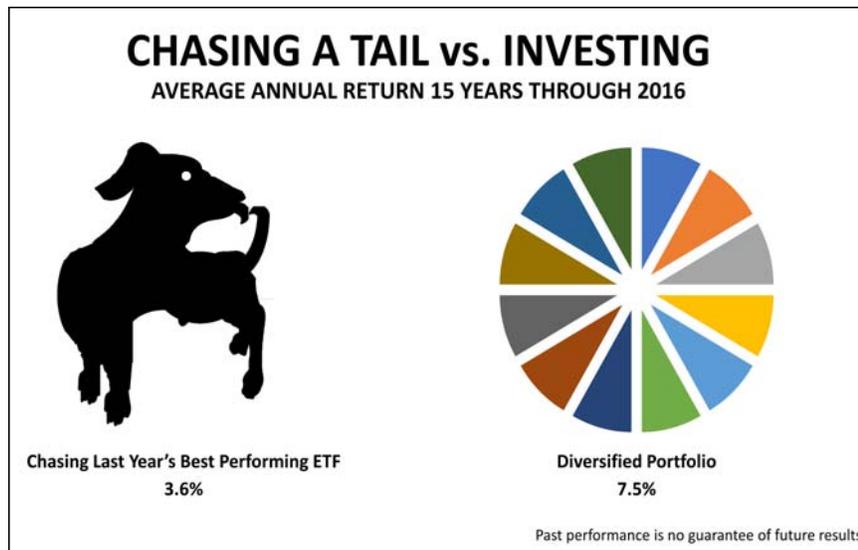
Ultimately, crypto-currencies compete with sovereign nations, which is why some governments are starting to move to regulate them. In the time this was written, not only had the price of Bitcoin plunged 25%, but South Korea became the first nation to ban all

anonymous crypto currencies and regulate the rest.

Bitcoin's ascent was easy to spot as a mania, but the modern-day danger inherent in chasing hot performing investments is often far less apparent. For example, say you bought the No. 1 performing Exchange Traded Fund annually for 15 years through 2016. Sound like it could be a strategy for success? Think again, according to Dr. Craig Israeslen, Ph.D., who teaches portfolio design techniques to financial professionals. Your average annual return was 3.6% — less than half the annual return of a broadly diversified portfolio invested across 12 different types of

assets equally and rebalanced systematically every year over the same 15-year period through 2016.

Human nature makes people susceptible to investment manias, shiny bright objects like Bitcoin, and chasing last-year's winners. It's why people will always need investment professionals to stay focused on economic fundamentals, quantitative analysis, controlling fear and greed. ●



## Six Tips To Avoid Phishing Scams

“Fake news” has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing, emails diabolically aimed to trick you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool people into revealing passwords, credit card numbers, contacts, emails, internet accounts, and your most personal digital data. It's rampant. Whether you're using a smartphone, tablet, or computer, here are some tips for protecting yourself:

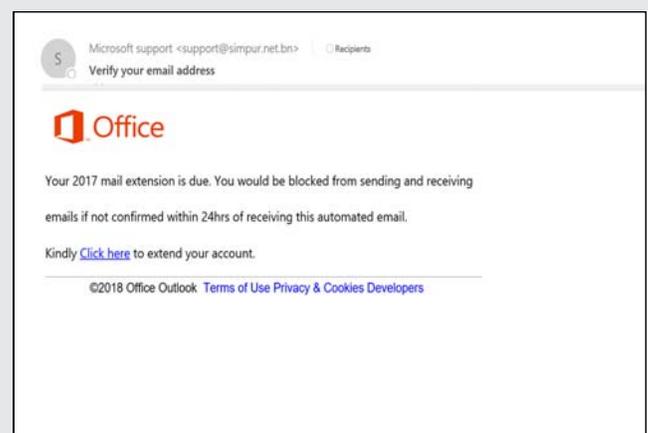
**Mistakes.** Phishing emails often are

generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. The phishing email from

Office use an improper style in “24hrs” and the capitalization of the phrase, “Kindly Click here” should arouse suspicion. When you look at this email's bottom line, the copyright is “Office Outlook.” The logo is off. The product name is Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use

Privacy & Cookies Developers make sense? It's a hint that this is a fake.

**Reply email address.** In this



# 2018 Estate Tax Changes And What May Be Ahead

**T**he tax code overhaul brought a lot of changes, but for the estate tax, the most far-reaching result was what didn't happen. Chiefly, you didn't lose the capital gains break on inherited assets when they are sold.

For tax purposes, the value of an asset, when sold, rises to its current market-value even though it was originally purchased at a lower price. The result is a lighter tax when an heir sells off stocks or other holdings that were part of the bequest.

For a narrow slice of the population, one weighty thing did happen with tax reform: Very wealthy households received a better deal on

how much of their estate is taxable. Their fondest wish did not come true, to be sure, and the new tax law did not kill what is derisively called "the death tax." However, Uncle Sam's claim on inherited mega-money has been shrunk by the new law. Starting in 2018, the exemption for estate tax nearly doubles. The

amount that can be passed along to heirs tax-free rises in 2018 to \$11.2 million from \$5.5 million for individuals, and to \$22.4 million, from \$11 million, for couples.

Above the new thresholds, the Internal Revenue Service expects to collect 40%. However, an important and favorable new wrinkle increases the exclusion annually by the rate of inflation.

The good news — and bad — is that through the end of 2025 is a great time to die, but Congress could modify the just-enacted rules as soon as 2019, particularly with recent changes in the political climate. Left unchanged, this

new part of the tax code is set to expire in 2026.

The number of estates that will pay any tax, according to the Tax Policy Center, is expected to drop from 5,300 in 2017 to 1,700 in 2018.

For heirs, the most important developments are what the House and Senate left alone. Those relate to capital gains and how surviving spouses can structure their own estates, a concept called portability:

**Capital gains.** The technical term for this untouched provision is a "step-up in basis." Let's say your father dies and you inherit Apple stock that he bought at \$8 per share in 1983,

a little after it went public. Today, Apple stock changes hands for around \$172. That kind of appreciation usually means a whopping capital gains bill, should you unload the shares to fund, say, buying a new home. In other words, a 15% tax bite on the price escalation of \$164 for each of

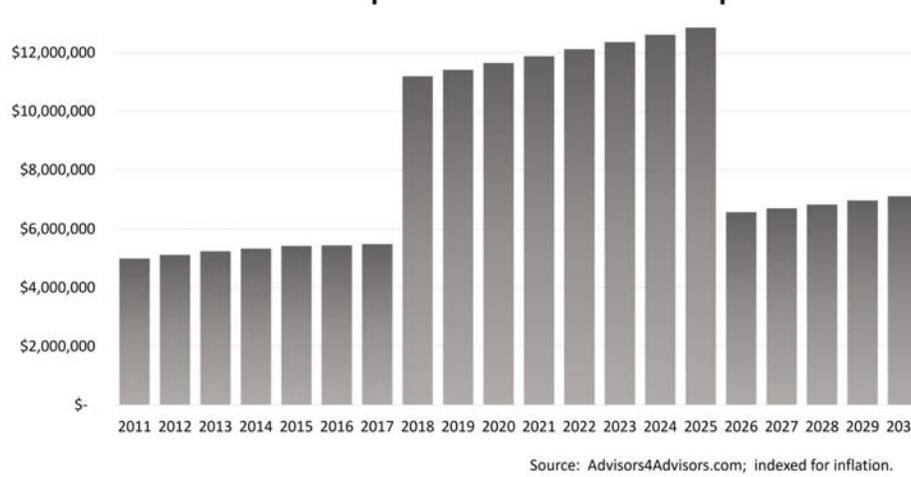
the shares. Thanks to the step-up, the IRS values your Apple shares at \$172, rather than the earlier \$8 per share.

**Portability.** This is a helpful tax benefit for married couples, which Congress also let stand as is. It permits a surviving spouse to receive the unused part of the estate-tax exemption of the dead spouse.

Example: Dick and Jane have an estate worth millions. Dick dies and leaves \$3 million of it to his children. Remember that the exemption for one person is \$11.2 million. Under the law, Jane can use the leftover \$8.2 million for her estate planning. That's a big deal to her beneficiaries.

Please let us know if you'd like to receive a weekly email about tax and financial news affecting your wealth. ●

## Estate Tax Exemption: Past And Expected



phishing email, the reply address at the top left says "Microsoft support," but if you look closer, the reply email address is "support@simpur.net.bn" and that is not a Microsoft address. The "bn" suffix is the internet country code for Brunei, and that's another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email address is to double click on it and look at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it's fake.

**Links.** Don't click on links in a suspicious email without being deliberate. The link could be a malicious website. Right click on the link and check

its properties and see if the link goes to the company.

**Slow down.** The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you're in a rush, and that's perhaps the reason why people become ensnared by phishing emails.

**Verify before you trust.** Trust but verify works for some things but not with internet security. First verify and then you can trust.

**Secure Software.** Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●

# New Deduction Rules For Business Owners

If you are a small business owner, Washington, D.C. has changed tax rules to lower your burden but the new rules are fairly complex. Many small businesses, and some that aren't so small, are "pass-through companies," tax-jargon that means the entity's net income isn't taxed at the corporate level but flows straight to their owners' personal returns. That income is taxed at personal income tax rates, as opposed to corporate rates that are generally lower.

The new tax law, though, has a valuable deduction that evens things out for pass-throughs, although the accounting gymnastics make this anything other than simple. "The size of the deduction varies, depending on the nature of the business activity and the total income of its owner," says Howard Gleckman, a senior fellow at the Tax Policy Center. "It may also depend on how much the business pays its employees and how much property it owns."

Under the new tax law, the top personal rate drops to 37% from 39.6%, with similar reductions in brackets below the highest level. Yet most U.S. businesses are classified as C corporations, which means these companies are taxed separately from their owners. The new tax

law lowers the federal tax for C corps to 21% from 35%.

To balance out the difference, Congress allowed pass-throughs — limited liability companies (LLCs), S corps, partnerships and the like — a 20% deduction on their net income. The effect, for those in the top tax bracket, is to lower an owner's rate to 29.6% from 37%. True, 29.6% is higher than 21%, but owners of C corps, meaning shareholders, pay a tax on dividends they receive, usually 15%. So that comes closer to parity with the pass-throughs.

To prevent those part-time jobs into pass-through entities, lawmakers limited the new rules. So, you can't suddenly claim you are a consultant and create a sole proprietorship with the intent of grabbing a tax break.

Owners of service businesses — doctors, lawyers, and consultants — are limited in what they can deduct. Service businesses, according to the tax law, may count as their principal asset the "reputation or skill" of the owners and employees, while manufacturers may not.

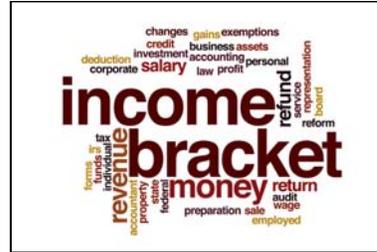
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In addition, Congress inserted income limits on the deductions that affect all pass-throughs, whether or not they're a service business. The 20% deduction is confined to income of \$157,500 for single-filers and \$315,000 for married couples. For service businesses, the deduction is phased out progressively in excess of those levels and eliminated entirely when total taxable

income is \$207,500 for singles or \$415,000 for couples filing jointly.

For other types of businesses, the deductions over those thresholds are limited to the greater of 50% of paid wages or 25% of wages plus 2.5% of the business' tangible depreciable property.

The pass-through rules are a big boon for real estate operators, whose properties usually each are LLCs. Further, if every property in a real estate owner's portfolio, say an office building or a shopping mall, is worth a large amount, the deductions can be sizable. For example, on a shopping mall worth \$5 million, 2.5% of its value is \$125,000. That's quite a deduction. ●



## Tax Deductions In 2018

(Continued from page 1)

you live in a place with high state and local taxes and home prices, you're hit hard. If you earn more than \$100,000 in adjusted gross income and live in a high tax state like California, Connecticut, Maryland, New Jersey, New York or Oregon, you may actually see an increase in your annual federal tax liability.

**Mortgage interest.** You can continue to deduct this interest for first and second homes. The change: For mortgages dated after Dec. 14, 2017, only the interest on the first \$750,000 of debt is deductible. Before that date, the \$1 million ceiling still applies. In places where home prices are high, mortgages are low, that is not as much of a concern. In high-price locales, it is.

Home equity interest. You no longer can deduct interest paid on home equity loans, unless it is used to improve the dwelling. Many people use such loans, which are secured by their homes, to pay for college tuition or new cars. If a home equity loans and the mortgage totals more than \$750,000, the amount over that limit can't be deducted.

### ELIMINATED DEDUCTIONS

**Personal exemption.** Exemptions, which lowered your income by \$4,050 per person — usually family members — is gone. For some families with children over 17, who can't take advantage of the expanded tax credit, the elimination of the personal exemption will be a net loss.

**Alimony.** For divorce and separation agreements made after 2018, alimony payments will no longer be deductible. The deduction is helpful to a paying ex-spouse who is short on funds.

**Casualty and theft losses.** If your house burned down or a crook took your wallet, you could deduct the loss not covered by insurance to the extent it exceeded 10% of your income. Under the new law, only casualty losses suffered in a natural disaster declared by the president are deductible.

**Job expenses.** Continuing education, medical tests and licensing fees previously were write-offs. Not anymore.

**Moving expenses.** Before, you could deduct these if you moved to start a new job and it was a good distance (that varies by circumstances, but typically meant 50 miles away) from your old home. Now, that is gone, unless you are in the military.

**Miscellaneous itemized deductions will be eliminated.** These include deductions for unreimbursed employee expenses, professional fees and investment expenses. ●