Personal Wealth Opportunities Under the New Tax Laws

Presented March 15th, 2018

Canon Capital Wealth Management

Financial Literacy Program

Seminar Agenda

- Welcome & Introduction
- Taxation as a Significant Component of Wealth Management
- Review of Key Parts of New Tax Law Impacting Individuals
- Specific Planning Strategies
- Summary and Conclusion

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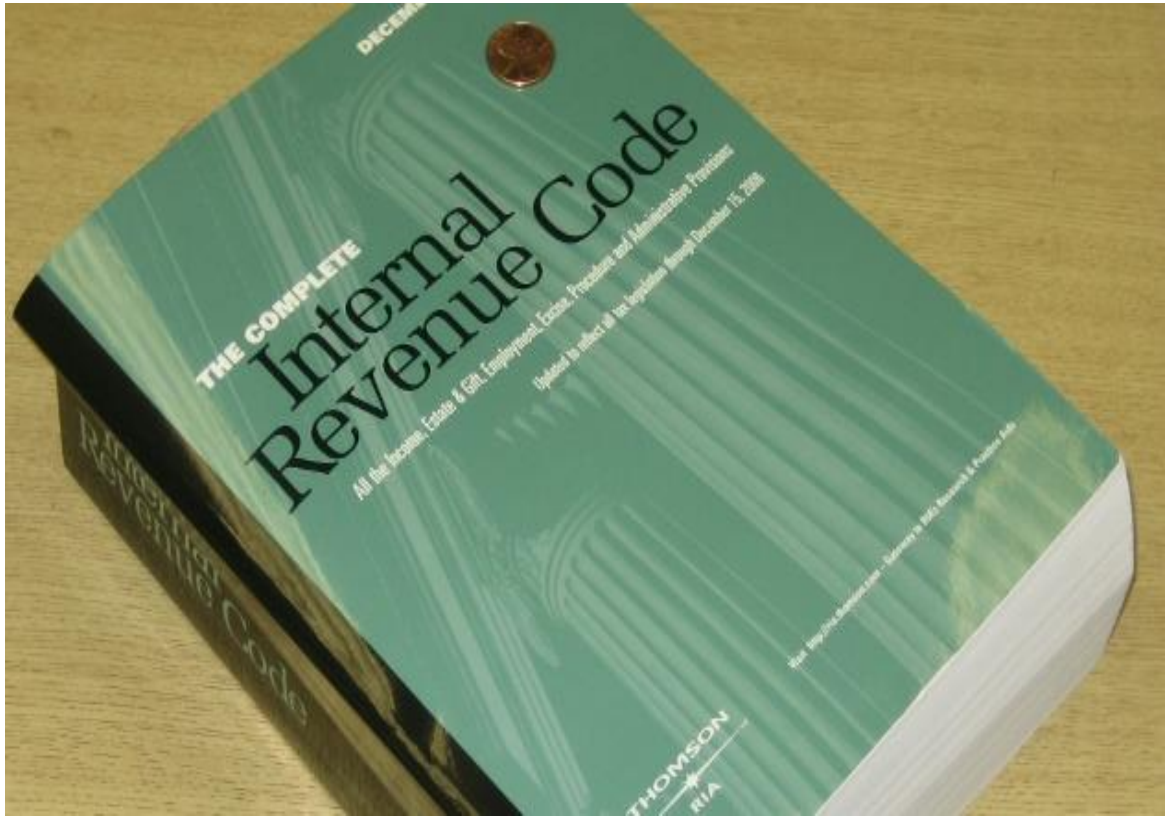
- Family Office Services
- High Net Worth Individuals
- Retirement Plans

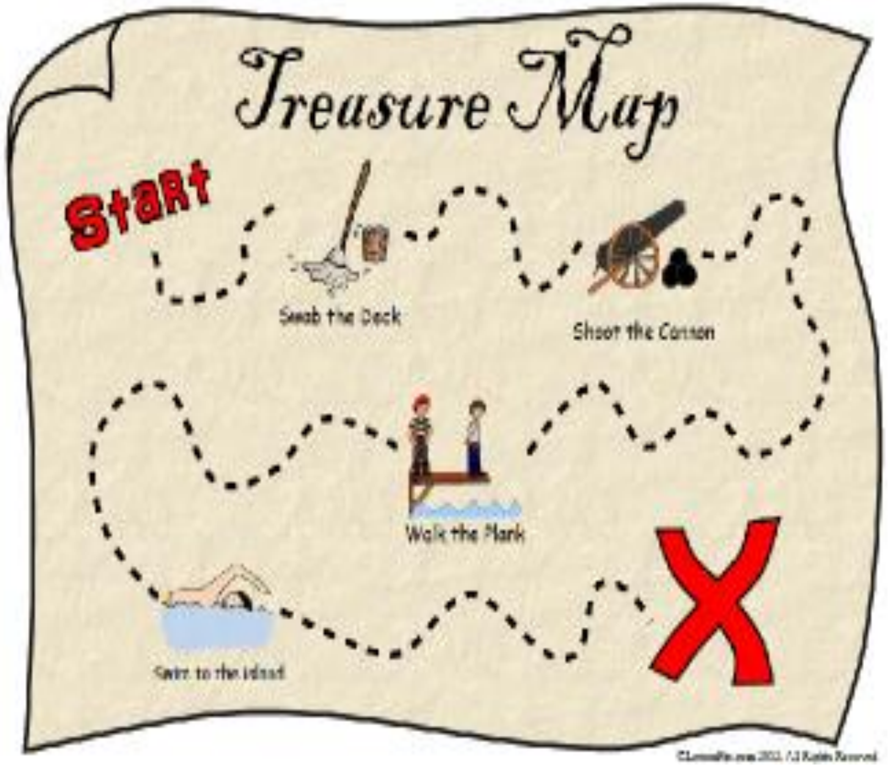
Dr. Peter J. Roland - Speaker

- Currently serves as Managing Director of Wealth Management for Canon Capital. One of the original founders over 30 years ago
- Former Big 4 Accounting Firm Tax Specialist
- PhD. In Financial Management; Master of Science Degree in Taxation;
- Over 25 years experience as an adjunct instructor in DeSales University's MBA degree program and CFP integrated Financial Planning Educational Program
- CPA/PFS, CFP, ChFC, AIFA, CMA, CLU
- Born in 1960, when the highest tax rate on individual income was **<u>91%</u> !!!!!!!!**

Taxation Has a Material Impact on Wealth

Internal Revenue Code is a “Treasure Map” for Building and Preserving Wealth

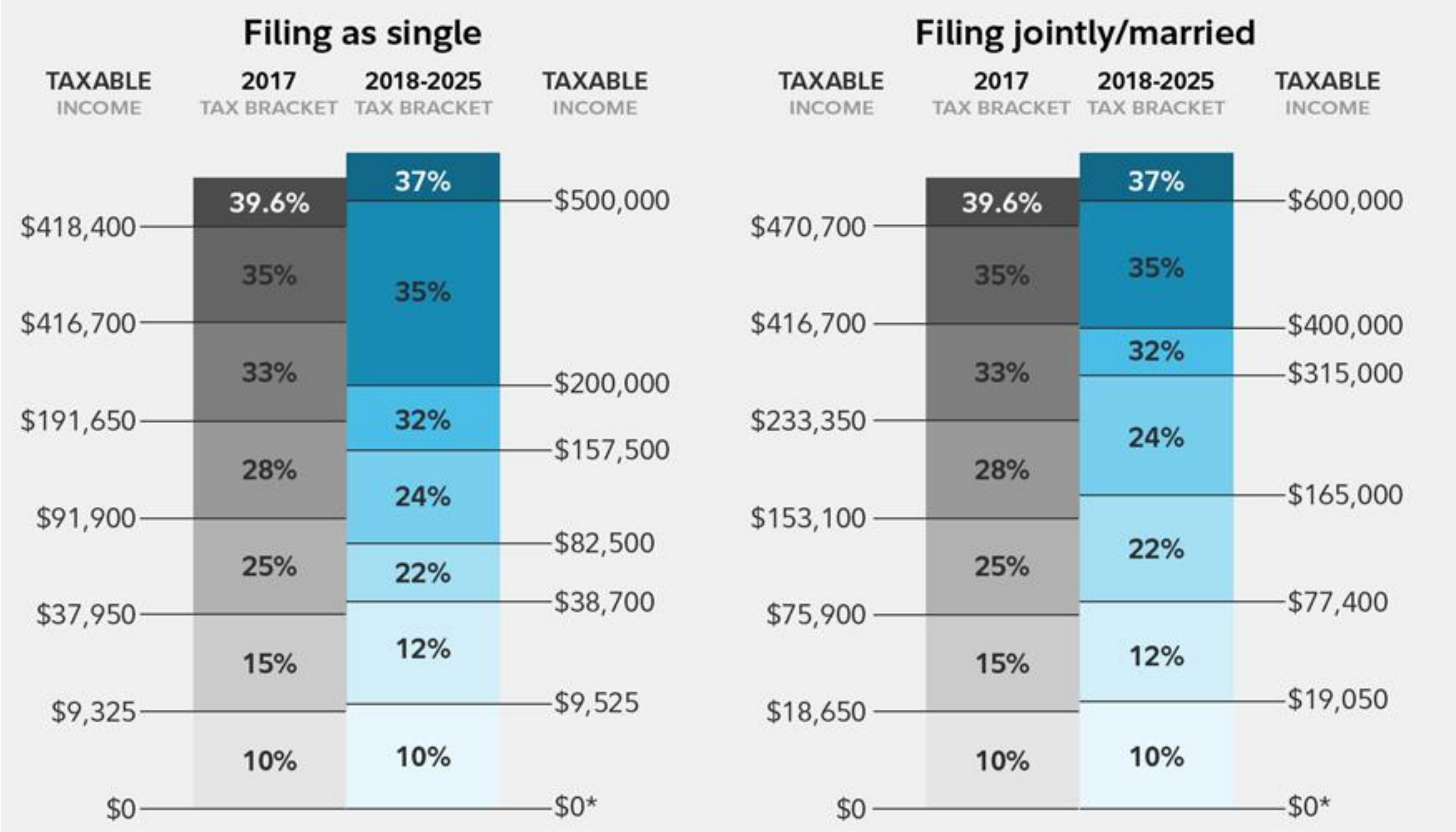




Background of the Tax Act

- Officially, the new name of the bill is “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018”, but it’s been called the Tax Cuts and Jobs Act since it was introduced back in November 2017
- Public Focus on “Tax Cuts” and “Jobs”
- Lowers general tax rates, but makes changes to deductions/exemptions
- Winners and Losers
- Creates considerations and opportunities for both short and long term wealth management

Individual Tax Rate Changes



2018 Capital Gains Rates/Qualified Dividend Rates

Capital Gain Tax Rate	Long Term Capital Gain/ Qualified Dividend Income	
	Married Filing Joint	Single
0%	$0 – 77,200	$0 – 38,600
15%	$77,200 – 479,000	$38,600 – 425,800
20%	$479,000 +	$425,800 +

Standard Deduction Changes

Filing Status	2018 Standard Deduction – Old Tax Law	2018 Standard Deduction – New Tax Law
Married Filing Joint	$13,000	$24,000
Married Filing Separate	$6,500	$12,000
Single	$6,500	$12,000
Head of Household	$9,550	$18,000

Itemized Deduction Changes

- Medical Expenses for 2018 and 2019 deductible in excess of 7.5% of AGI (vs. 10%)

- Deduction for State, Local & Real Estate taxes limited to $10,000 (SALT)

- Deduction for Mortgage Interest Qualified Acquisition Debt reduced from $1,000,000 to $750,000 for 1st or one 2nd home;

- Home Equity Loans other than the amount used to acquire or improve the home are no longer deductible

Itemized Deduction & Other Changes (Cont'd)

- Charitable contributions can now offset 60% of Adjusted Gross Income vs. 50%

- Casualty losses eliminated except for federally-declared disaster areas

- Miscellaneous Itemized Deductions Eliminated (unreimbursed employee business expenses, investment fees, tax prep fees)

- **Personal Exemptions <u>Eliminated</u>** (was $4,050 per Exemption in 2017)

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Children Related Changes

- Child Care Credit increased from $1,000 to $2,000
- Section 529 Education Plans allowed to distribute up to $10,000 for elementary, secondary and certain home school expenses
- Investment income of child now taxed at higher trust tax rates vs. individual tax rates

Business Related Tax Relief

- Regular "C" corporations highest tax rate reduced to 21% from 35%
- Higher Section 179 Depreciation Deduction Limits

- New Deduction for 20% of qualified business net income from pass through entities (S Corporations, Partnerships, LLC, Sole Proprietorships).
- Qualified Business includes <u>REAL ESTATE</u>
- Income limits for 20% benefit - $157,500 and $315,000 taxpayer income
- 20% Deduction of income from REIT dividends, Master Limited Partnership dividends, Co-ops

Some Other Tax Law Changes Impacting Individuals

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- Higher exemptions for Alternative Minimum Tax
- Alimony not taxable by recipient (or deductible by payor) for new agreements after 12/31/18
- Homeowners gain exclusion ($250,000/$500,000) - now must live there 5 of prior 8 years vs. 2 of prior 5 years
- Moving expense deduction eliminated (except for military)

Estate & Gift Taxation Changes

Federal Exemption of estate tax is now $11.2 million per person

(to be adjusted for inflation)

Higher Annual Gift Tax exemption amount

(raised from $14,000 to $15,000 per year)

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Many Taxpayers will find that the **Tax Cut & Jobs Act** is really a “Truc”

- *Truc* – PA Dutch word for **trick**

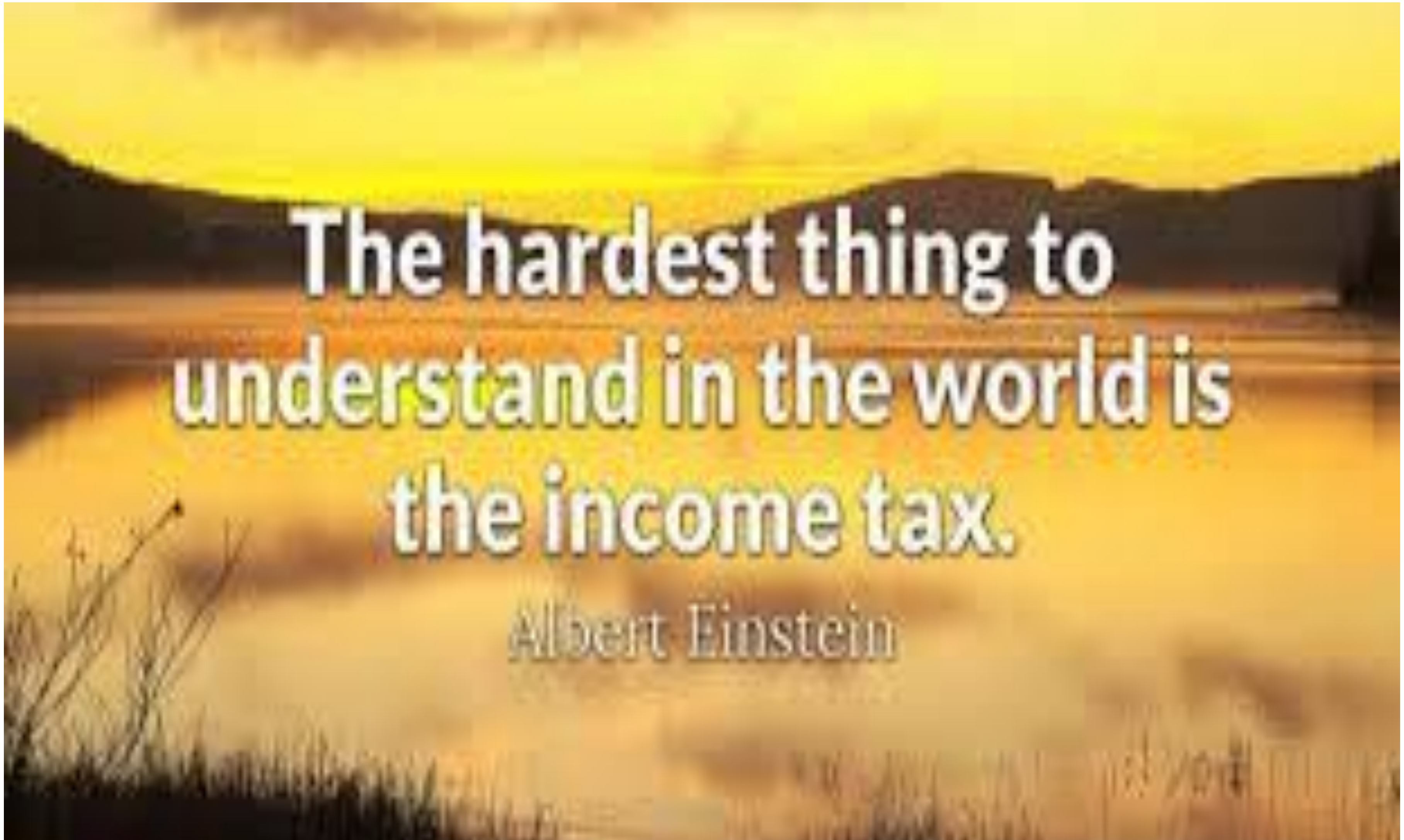
Tax “Cut” – Rates go **DOWN**

Actual tax from Tax “Cut” - Actual Tax goes **UP**

More “Truc” *(tricks) in the New Tax Law*

- 7 Year “Temporary” rules (2025 Sunset) – to keep the act from costing more than $1.5 Trillion
- Beneficial provisions set to disappear…..on a now ***<u>expanded income base</u>***
- New IRS inflation factor calculation for brackets modified now using “Chained CPI” - resulting in higher taxes over time as a result of “taxflation”

Personal Wealth Strategies & Considerations Under the New Tax Laws



W-4 Payroll Withholding Trap

- Recent Change in Tax Tables result in Larger Paychecks
- For some taxpayers with large itemized deductions and personal exemptions their 2018 tax liability will go up (even though their tax rates go down). The automatic change and reduction in tax withholding may cause these taxpayers to be underpaid and subject to interest and penalties.

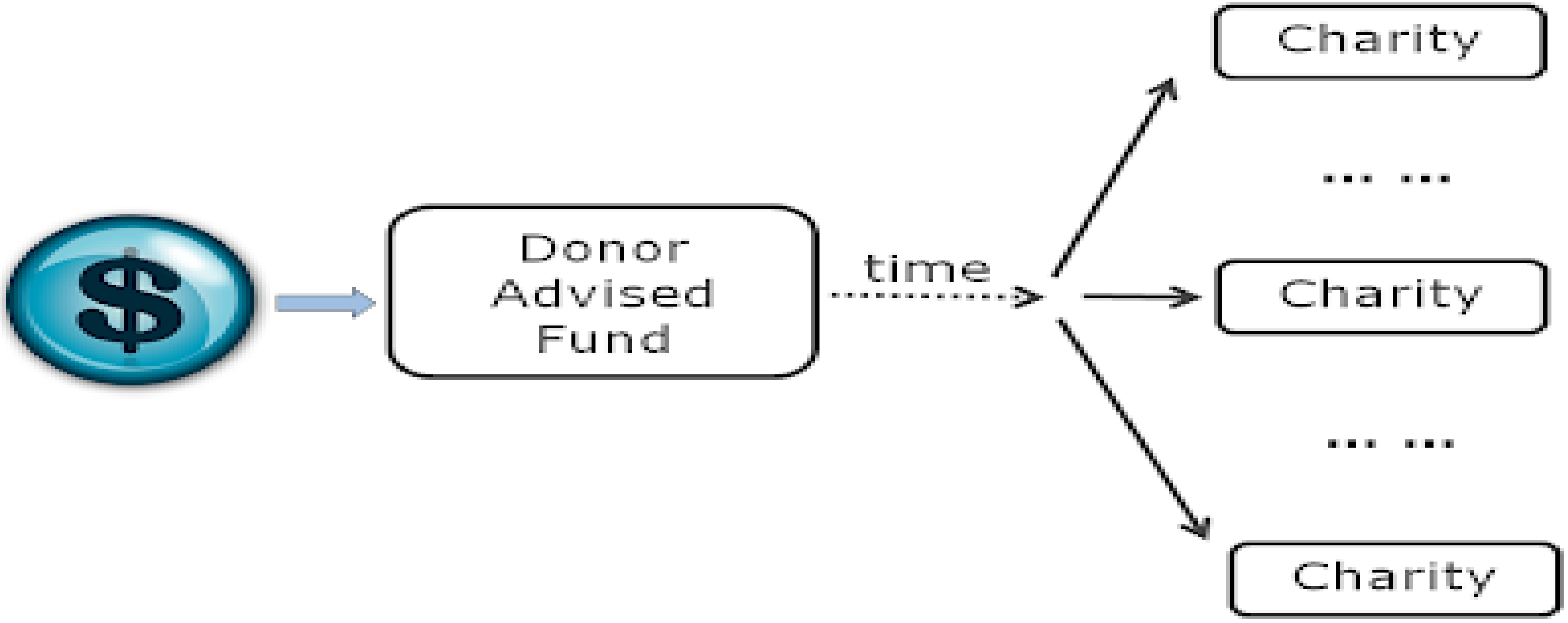
- Planning Strategy: Review your W-4 payroll withholding and adjust it to your unique situation to avoid IRS interest and penalties

Take Advantage of “Tax Arbitrage” When Possible

- Project your tax rates for current and future years.
- Time income and deductions to maximize impact on taxable income and marginal tax rates

  - Example - Someone who typically makes a Roth IRA contribution may want to use a 2 step process and make a deductible IRA for the year they are in a higher tax bracket and than convert in the next year when their rate goes down
    - 2017 - $100,000 taxable income = 28% marginal tax rate vs. 24% in 2018
    - Contribute to a Deductible IRA for 2017 before 4/17/18 and instantly convert to a Roth for a 4% instant bonus return on your funds through tax arbitrage

Planning Strategy – Use Donor Advised Funds to "Bunch" Charitable Contributions – Use Appreciated Assets when Possible



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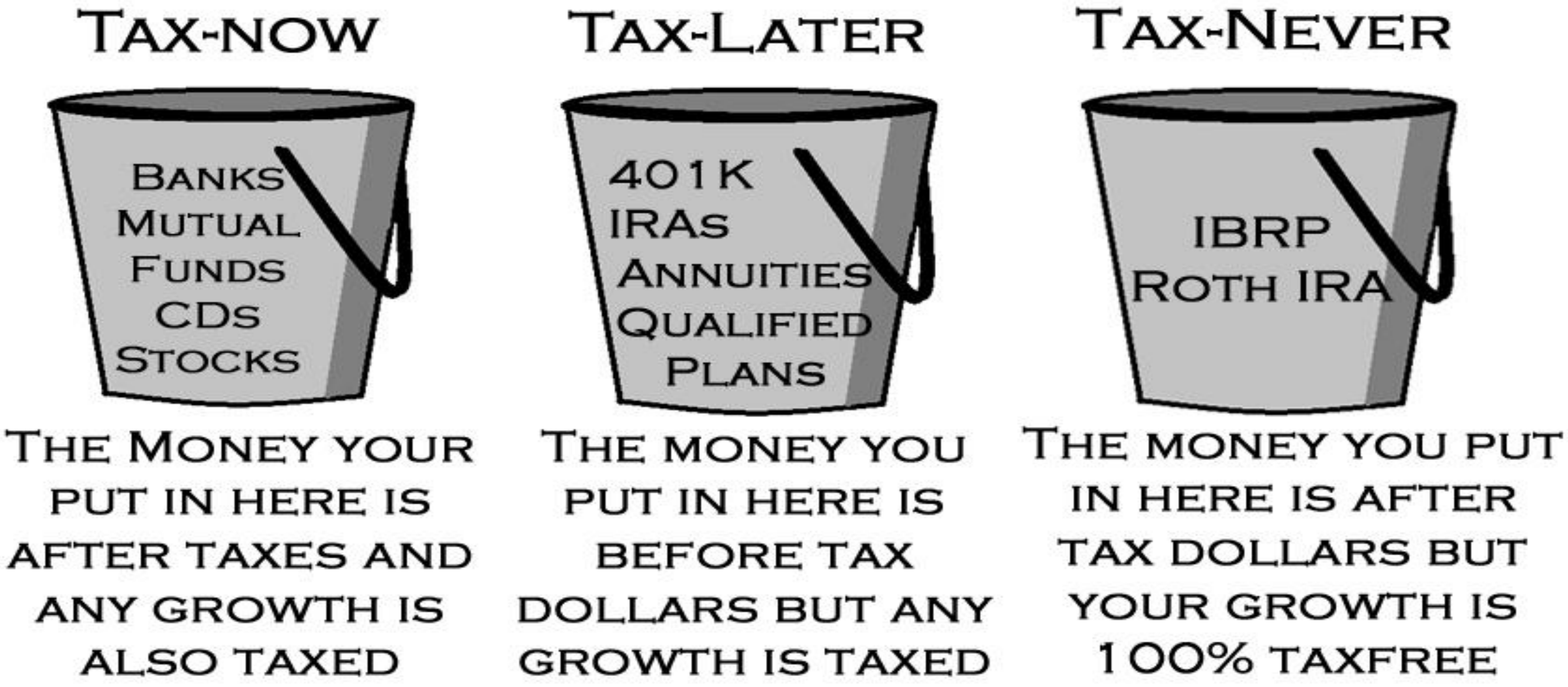
Look at your "Bucket List"



Roth IRA - Opportunities

- Utilize Roth and Roth Conversion Strategies in the temporary 7 year lower tax rate environment (2018-2025)
- Perform Roth Conversions over time to manage marginal tax brackets and fill up your tax brackets
- Roth Conversion Re-characterizion strategies no longer available
- For 2017 tax year, consider taking advantage of deductible IRA/ Roth conversion strategy for “tax arbitrage”

Real Estate Investment Opportunity?

- 20% deduction of net income from investment real estate activity (good for non-leveraged real estate) – result in higher net returns for owners
- More liberal depreciation rules
- Stronger Rental Demand
  - More expensive to Own a home for many as a result of no itemized deduction benefit from New Tax Law
  - Demographics – Economic Conditions - Changing Peferences

Partial Listing of Tax Planning Wealth Strategies

- Project your Expected income for the next few years as well as lifetime viewpoint
- Review how the loss of itemized deductions will impact your taxable income, marginal tax rate and overall tax for the next few years
- Evaluate your personal debt and consider paying off non-deductible home equity loans more quickly that are now not subject to interest deductibility

Partial Listing of Tax Planning Wealth Strategies (cont.)

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- Roth IRA Contributions and Conversions over time to fill up your brackets and use tax arbitrage when possible
- Generally make IRA contributions early in the year; Take distributions late in the year
- Consider Charitable Gifting using appreciated assets vs. cash; Consider bunching of charitable giving potentially using donor advised funds
- Consider Making Charitable Contributions Directly from your IRA account if you are over age 70 ½

Partial Listing of Tax Planning Wealth Strategies (cont.)

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- Harvest Capital Gains to the extent the “0” tax rate applies
- Harvest Capital Losses to offset any Capital Gains
- Take advantage of Qualified dividends on high quality low risk stocks rather than interest income
- Consider investments positively impacted by the new tax law (ex. REITS)

Partial Listing of Tax Planning Wealth Strategies (cont.)

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- Consider Sect 529 Plans for College and now K-12 expense funding
- Use the Saver's Credit for retirement funding; ABLE account contributions now eligible for Saver's credit
- Consider gifting capital gain appreciated property to lower tax bracket family members before sale

Partial Listing of Tax Planning Wealth Strategies (cont.)

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- Make optimal use of “portability” election in estates to maximize the exemption available to surviving spouse; Don’t forget about step up in tax basis for assets flowing through estates; Consider State Inheritance taxes in your planning
- Plan for and use the 20% deduction against “Qualified Business Income” and evaluate your business structure for new rules
- Consider a defined benefit cash balance plan for your business to maximize tax deductions

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A word of Caution about Identity Theft

Anyone know where I can find a good Shredding Truck?

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Thank You for Participating in our Event