SARD
WEALTH MANAGEMENT GROUP, LLC

CLIENT NEWSLETTER **BY: JONATHAN SARD, CFP®**
1st QUARTER - 2018

IMPORTANT INFORMATION

Congress and the President passed the much anticipated tax reform bill – The Tax Cuts and Job Act. Below are some highlights of the legislation.

Also, the 2018 retirement plan contribution limits have been released and the deferral limits for 401k, 403B, and 457 Plans have all increased $500 - from $18,000 to $18,500 per year. The catch up contribution limit stays the same at $6,000. Contribution limits for Simple IRAs, Traditional IRAs, and Roth IRAs all remain the same.

Lastly, as we get into 2018, be sure a loved one or someone you trust has access to usernames and passwords to important information, such as phones, laptops, etc. This is important in case someone needs to access information in the event of your incapacitation or your passing.

TAX REFORM!

On December 22, 2017, President Trump signed into law the largest overhaul of the US tax code since the Reagan administration. The law has been hailed as positive for business, and it appears that the law also provides benefits for many middle-income taxpayers. However, with all the hoopla and political rhetoric surrounding the law, let's discuss some of the highlights and how they may affect you.

First, here are a few main ideas to keep in mind.

- The new law does not really affect the tax return you must file by April 15, 2018 for tax year 2017, and the new requirements don't take effect until tax year 2018.
- Under the new law, many personal itemized deductions are either no longer available or are less advantageous. To make up for this, the new law almost doubles the amount of the personal deduction. Previously, for single persons, the standard deduction was $6,500, and after January 1, 2018, it will be $12,000. For a married couple filing jointly, the deduction goes from $13,000 to $24,000.
- If you operate a sole proprietorship, partnership, or S-corporation, you may still deduct ordinary business expenses as you have been doing. In addition, the new law allows you to deduct 20 percent of the income passed through to you from your business.

1. **Beginning January 1, 2018, state and local taxes (SALT) will only be deductible up to $10,000 on your federal tax return**. Because of this, many tax payers in high tax states, most noticeably New York, Connecticut, New Jersey, California, and even our own state of Georgia, could see their taxes go up as a result of this limitation.

2. **Alternative Minimum Tax considerations.** The new law doesn't repeal the AMT, but it greatly expands the exemptions available. One important example would be persons with incentive stock options (ISOs) from their employer. Exercising an ISO is one of the events that can trigger AMT liability. But with the new, higher exemption, you are less likely to be liable for the AMT after January 1, 2018.
3. **Estate taxes.** If you are utilizing trusts to manage estate tax liability, make an appointment with your attorney to review your documents. The new law doubles the exemption for estate taxes, which means that fewer estates will be large enough to be concerned with paying them. However, the estate tax laws have changed frequently in the past, and will probably continue to do so. You need to carefully review your documents and your strategy with a qualified legal advisor who is well versed in estate law and the implications of the new tax code.
4. **Pass-through income deduction.** The new law allows a 20 percent deduction for owners of "pass-through" businesses - operators of S-corporations, partnerships, or sole proprietorships. Such businesses will be able to deduct 20 percent of the income generated by the business, with the remainder taxed at the owner's marginal rate. Such owners who are married and filing jointly and earning $315,000 per year or less would have a top marginal rate of 25 percent in 2018, based on the brackets that will go into effect with the new law.
5. **Alimony.** Previously, alimony payments were deductible for the payor and taxable to the payee. Under the new law, alimony payments are no longer deductible or taxable. The law grants a window, until December 31, 2018, to finalize pending divorce agreements, in order to permit time for these new considerations to be incorporated into the calculation of payments.
6. **Mortgage interest deductibility.** For loans closed after December 15, 2017, mortgage interest on loans of up to $750,000 is deductible (down from $1 million under the previous law). Home equity loan interest for loans with an effective date later than December 15, 2017, will no longer be deductible.
7. **Section 179 depreciation deduction for real property.** Under the previous law, there was a $520,000 annual limitation on Section 179 deductions, but the new law increases this to $1 million. The new law also allows for "qualified real property" to be eligible for this deduction.
8. **Charitable Donations.** Under the new law, charitable donations are still deductible. However, because of the much higher personal deduction, fewer taxpayers will see an advantage in itemizing, so you should consult with your tax advisor about your specific situation. That said, the new law does raise the amount of adjusted gross income allowed for charitable donations from 50 percent to 60 percent.
9. **Repeal of individual mandate will not happen until January 1, 2019.** On that day, the individual health insurance mandate is scheduled to be repealed; no taxpayer will face a penalty for not having health coverage.
10. ***Many of the changes authorized by the passage of the TCJA could expire after 2025.*** Congress may or may not renew them at the end of that year. The reduction of the corporate tax rate to 21% is a notable exception – that change is permanent.

These are just some of the highlights of the tax changes and remember that it is important to speak with a qualified tax advisor in connection with the matters outlined above. The new law offers several advantages for many taxpayers, but along with these come changes that need to be thoroughly understood.

Given all of the changes and uncertainty, we always stress how important it is to plan. Be sure you are sitting down with us on a regular basis to discuss your entire financial situation. Each quarter we want to remind you to alert us to changes in your financial situation or investment objectives to ensure that we are aware of any situation that might require changes in the management of your accounts. Please remember to contact us to discuss how these changes impact your investment accounts!

Financial Tip of the Month

Tapping your retirement account early? Consider these factors

Ideally, you should try not to tap your 401(k) or IRA accounts before it's time to retire. However, in certain situations, you may need to withdraw a portion of your nest egg while you're still working full-time. Here are three scenarios where this may be the case — and possible alternatives to avoid tapping your retirement accounts too soon:

You're drowning in high-interest debt. Your retirement plan may allow for a 401(k) loan that can be used to pay off expensive credit card accounts. Although the loan is paid back to your own account (paying yourself the interest), this solution has some disadvantages. For one thing, money that's withdrawn from your 401(k) account isn't available for long-term growth. Also, should you lose your job, the loan may become due immediately.

If you can't settle the debt right away, you may be subject to a 10 percent early withdrawal penalty and regular income taxes on the outstanding loan balance. Consider paying off debts using other funding sources as it may be a more prudent solution.

You're facing foreclosure on your home. The hit to your credit score can be devastating if you default on a mortgage. But, again, using your retirement nest egg should be considered a last resort. You may be better off working with your lender to revamp your mortgage. Consider extending the term or renegotiating the interest rate to reduce monthly payments.

You're heading back to college. If you need to retool for a new career, the IRS allows you to make penalty-free withdrawals from your IRA accounts before age 59½ if the money is applied toward higher education expenses; however, be aware that the same rules do not apply to 401(k) accounts. If you haven't reached age 59½ and use funds from a 401(k) to cover college expenses, early withdrawal penalties and income taxes may apply.

The best way to avoid penalties is to understand the rules around retirement account withdrawals. Give us a call to learn more about tax penalties you may face if you withdraw funds early from retirement accounts. We can help you create the best plan for your situation.

Please keep in mind that this tip is designed to be of help for you, but is not to be relied upon as advice. It is merely a reminder that there are many choices you have available to you, and that planning may be the only way to find the right answers for your situation. As with any financial issues, make sure you get the right information before making a decision. If you have any questions, we'll be glad to help you!

<u>Client Quiz</u>

Question: How many federal income tax brackets will there be in 2018?

A. 3
B. 5
C. 6
D. 7

We wanted to thank those of you who have participated in our Client Introduction program. As you know, marketing for new clients takes a great deal of money, time, and energy and we would much rather spend our resources improving your financial health. We, like most businesses are looking to grow; however, for the

benefit of our existing clients we are only able to take on a limited number of new clients each year. Over the years, we have learned that encouraging you to introduce us to people you know works well for all of us…we help you, and you help us. If you aren't familiar with our friends helping friends program, please call our office or be sure to ask us at your next meeting. The few minutes it takes to learn about how it works will be well worth your time and energy!

Answer: D. There will continue to be 7 federal income tax brackets in 2018.

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