



Plotting the Course

January 30, 2018

Tax Cuts and Jobs Act

By Laura Abbott DeCarolis

On December 22, 2017 the Tax Cuts and Jobs Act was signed into law by President Trump. Most of the changes introduced by the bill went into effect on **January 1, 2018 and will expire at the end of 2025**. The following is meant to highlight tax rules and limits for the UPCOMING 2018 tax year. The limits/rules that are underlined below are, specifically, changes brought about by the new tax law.

- The new tax brackets for 2018 are 10%, 12%, 22%, 24%, 32%, 35% and 37%. In addition to the rates changing, the income range for each bracket also changed. Below we have included those brackets for individual filers and those who are married filing jointly.

INDIVIDUALS

Previous (2017)		<u>NEW</u>	
Tax Rate Applied	Taxable Income Between	Tax Rate Applied	Taxable Income Between
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%	Over \$418,400	37%	Over \$500,000

MARRIED FILING JOINTLY

Previous (2017)		<u>NEW</u>	
Tax Rate Applied	Taxable Income Between	Tax Rate Applied	Taxable Income Between
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%	Over \$470,700	37%	Over \$600,000

- The 0% tax rate on capital gains and qualified dividends still exists. Previously, the 0% tax rate applied to filers who fell in the 15% or lower tax bracket. Since there is no longer a 15% tax bracket under the new law, a dollar amount has been established to determine where the 0% rate applies. That amount is \$77,200 for married filers, \$38,600 for single filers, and \$51,700 for heads of household, which very closely equates to the new 12% bracket.
- The standard deduction for all filing statuses nearly doubles. The standard deduction is \$24,000 for married filers (plus \$1,300 for each spouse age 65 or older), \$12,000 for single filers (plus \$1,600 if age 65), and \$18,000 for heads of household (plus \$1,600 if age 65).
- The personal exemption (which was \$4,050 per person in 2017) is REPEALED for 2018.
- If itemizing deductions, taxpayers can now claim no more than \$10,000 of the total of all state and local income taxes, sales taxes, and real property taxes on Schedule A.
- The threshold for deducting medical expenses claimed on Schedule A for 2018 is 7.5% of AGI for all taxpayers. The amount will increase back to 10% in 2019.
- Itemized deductions subject to the 2% floor (such as investment expenses, tax preparation fees, and unreimbursed employee business expenses) are repealed.
- The limit for deducting charitable contributions for those who itemize will now be 60% of income instead of 50%.
- The deduction for mortgage interest is capped at \$750,000 of debt and is allowed on a first and second home. Also, interest on home equity loans will no longer be deductible.
- Beginning with divorces in 2019, alimony payments to an ex-spouse are no longer deductible and will not be taxable income to the recipient.
- The child tax credit doubles to \$2,000 per qualifying child.
- Taking the deduction for Traditional IRA contributions may be limited for those who participate in an employer-sponsored retirement plan. The AGI income phase-out increases to \$101,000-\$121,000 for marrieds and \$63,000-\$73,000 for singles. Where only one spouse is active in a plan, the phase-out increases slightly to \$189,000-\$199,000.
- Certain limits for contributions into employer-sponsored retirement plans INCREASE for 2018. The contribution limit for 401(k)s and 403(b)s increases by \$500 to \$18,500 (plus a \$6,000 "catch-up" for those age 50 or older). However, the limit for contributions to a Simple IRA again holds at \$12,500 (plus a \$3,000 "catch-up").
- The maximum contribution limit for Traditional or Roth IRAs continues to HOLD at \$5,500 plus an additional \$1,000 for individuals age 50 or older. As always, you OR your spouse must have earned income equal to at least the amount of your total contributions in order to make a Traditional or Roth contribution.
- The income limit for making Roth IRA contributions also increases slightly with the phase-out at \$189,000-\$199,000 for married filers and \$120,000-\$135,000 for single filers.
- The estate and gift tax exemption also doubles to \$11,200,000 for those dying and gifts made after December 31, 2017.
- The contribution limit to Health Savings Accounts ("HSAs") increases slightly to \$3,450 for single coverage and \$6,900 for family coverage. HSA owners age 55 or older can contribute an additional \$1,000. As always, you can make the contribution only if you have a "high-deductible health plan", which now means having insurance coverage with an annual deductible of at least \$1,350 on single coverage and \$2,700 on family coverage. In addition, the out-of-pocket maximum threshold is now \$6,650 on single and \$13,300 on family coverage.
- The Social Security wage base for this payroll tax INCREASES from \$127,200 to \$128,400 for 2018.

- Those collecting Social Security before full retirement age (who are between the ages of 62 and 66) can earn \$17,040 in 2018 without losing benefits. But individuals who reach their Full Retirement Age during 2018 can earn up to \$45,360 in the months before reaching FRA without losing benefits.
- Qualified withdrawals from 529 Education Savings Accounts have expanded to allow distributions of up to \$10,000 per beneficiary for education other than higher education. In other words, distributions can now be made for elementary and secondary school, not just college.
- The Lifetime Learning education credit phases out at AGI levels between \$114,000-\$134,000 for married filers and between \$57,000-\$67,000 for single filers.
- The standard mileage rate increases in 2018 to 54.5 cents per mile for business driving and to 18 cents per mile for medical purposes. However, the rate holds at 14 cents per mile for charitable driving.

Sources: Internal Revenue Service, National Association of Tax Professionals; Paychex; Kiplinger; Forbes.

Advisory Fee Schedule

By Aimee Toth

Trustmont recently circulated an Advisory Fee Template providing some guidelines for the calculation of advisory fees. The industry has experienced fee compression and we need to ensure that our fees are competitive, while still being adequately compensated for the services that we provide to our clients. As we have discussed on a number of occasions charging a percentage of assets under management is not the only acceptable fee arrangement. Advisors may be compensated for special projects and advice.

If you encounter a situation where you feel that you need to deviate from this schedule please contact a supervisor in advance of presenting a contract to a client.

As always, Trustmont management is available to discuss this schedule and an special situations.

Trusted Contract Information

By Michelle Sears

As a reminder, FINRA has amended Rule 4512 to require members to make reasonable efforts to obtain the name of and contact information for a trusted contact person upon the opening or a non-institutional customer's account or when updating account information for a non-institutional account in existence prior to the effective date of the amendments. This trusted contact information is located on the Trustmont New Account Form. If clients refuse to provide the information, the Acknowledgement to Not Disclose Trusted Contact form is on the Trustmont Website in the Compliance section, and is required for this circumstance.

Choice Of Mutual Fund Share Class

By Aimee Toth

This year's FINRA Examination Priority letter, as well as recent FINRA examinations, puts a strong emphasis on the choice of mutual fund share classes. Advisers need to perform a careful analysis of the amount to be invested and the investor's time frame before recommending a particular share class.

2018 Required Quarterly Webinars:

Feb 8, 2018
May 17, 2018
Aug 16, 2018
Nov 15, 2018

Summary of the United States Tax Cuts and Jobs Act of 2017

Current law vs. Final bill

	Current Law	Final Bill
Individual		
Top individual tax rate	39.6%	37% (until 2025)
Individual tax brackets and rates	10%:\$0; 15%:\$18,650; 25%: \$75,900; 28%:153k	10%: \$0; 12%: \$19,051; 22%: \$77,401; 24%: 165K
Estate tax exemption	\$5.5mm/person	\$11MM/ PERSON
State and local income taxes	Deductible	Mostly eliminates; caps prop./ income to \$10K total
Mortgage interest deduction	Deductible up to \$1MM mortgage + \$100K home equity	Deductible up to \$750K of new mortgages; no home equity
Student loan interest deduction	Deductible	No change
Personal exemption	\$4,150/person	Eliminates
Standard deduction	\$6.5K single; \$13K married	\$12K single; \$24K married
Individual AMT	Includes a \$86.2K exemption + \$164K phase-out	Increases exemption to \$109K + phase-out to \$1MM
Child tax credit	\$1K per child	\$2K; refundable up to \$1.4K
Obamacare individual mandate	Penalty of \$695 or 2.5% income for no health insurance	Repeals
Requires FIFO upon sale	Flexibility to optimize tax harvesting	No change (i.e., no FIFO requirement)
Municipal interest tax exemption	Muni interest exempted from federal taxes	No change
Municipal private activity bonds	Tax exempt bonds for specific public/private projects	No change
Advanced refunding bonds	Allowable	Eliminates
Corporate		
Corporate tax rate	35%	21% (permanent)
Corporate tax rate starts	N/A	2018
Top pass-through rate	39.6%	20% deduction for certain income w. caveats (until 2025)
Corporate AMT	20% tax to broadly defined alternative income	Repeals
Expensing	50% expensing through 2020	100% expensing through 2023
Interest expense deductibility	No limit	Limits to 30% EBITDA until 2021; 30% EBIT thereafter
Net operating losses	Allows carry backs 2 years; carry forwards up to 20 years	Eliminates carry backs; indefinite carry forwards (w/caveats)
Taxation of foreign income	Worldwide (through only taxable when repatriated)	Territorial; 100% exemption
Deemed one-time repatriation tax	N/A	15.5%; 8% illiquid
Carried interest	1 year minimum holding period	3 year minimum holding period
Minimum taxes from income	N/A	10% tax on high-return income; increase to 12.5% in 2025

Source: Joint Committee on Taxation, Senate Finance Committee; Ways and Means Committee, PIMCO

TRUSTMONT ADVISORY GROUP

WORKSHEET FOR INTERNAL USE ONLY. NOT FOR DISTRIBUTION TO CLIENTS.

AUM	Asset Management Only	Fee for 3rd Party Money Mgmt. Oversight	Quarterly Reviews 1 Meeting	Monthly Reviews 2 Meetings	Special Certification CFA, CFP, AIF	Update Financial Plan	Quarterly Client Newsletters and Webinars	Special Planning and Additional Services*
\$0-\$300,000	0.75-1.25%	0.25-0.30%	+ 0.10%	+ 0.20%	+ 0.10%	+ 0.10%	+ 0.05%	\$150-300/hr
\$300,000-\$1,000,000	0.65-1.00%	0.20-0.25%	+ 0.10%	+ 0.20%	+ 0.10%	+ 0.10%	+ 0.05%	\$150-300/hr
\$1,000,000-\$3,000,000	0.50-.85%	0.15-0.20%	+ 0.10%	+ 0.20%	+ 0.10%	+ 0.10%	+ 0.05%	\$150-300/hr
\$3,000,000 +	0.50%-.65%	0.10-0.15%	+ 0.10%	+ 0.20%	+ 0.10%	+ 0.10%	+ 0.05%	\$150-300/hr

Maximum Percentage Fee Charged is 1.5%

* These fees may be charged in addition to the asset management fee and are for services not covered by the AUM fee. Client acknowledgement must be documented

Any deviations from this schedule must be approved in writing by Trustmont management prior to execution of advisory agreement.