

The FINANCIAL UPDATE

D DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING



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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.

Tax Planning 2018



Here's a guide to how the new rules expand some deductions, but restrict or eliminate others.

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 and it affected more individuals. In the 1990s, Congress hiked the AMT tax rate, stiffening its cost. Under the AMT, the standard deduction and deductions for state and

local 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

Act Now To Save On Taxes

Many tax payers were dismayed when the Tax Cut and Jobs Act of 2017 passed. It limited the deduction for State and Local Tax (SALT) to a combined total of \$10,000. Those who itemize their deductions and whose SALT exceeds \$10,000 would lose a significant tax deduction.

However, right now Georgia income tax payers have a means of preserving some, if not all of this deduction. Under a law signed by Governor Deal on May 2, 2018, you can reduce your state income taxes by \$1 for every \$1 you contribute to Rural Hospital Organizations (RHOs). When you make this contribution, it is deductible on your Federal return as a Charitable Contribution.

The law goes into effect on July 1, 2018. We believe this program will be very popular with taxpayers and the \$60 million statewide cap will be reached very quickly. It's important that you instruct Georgia HEART (the organization that administers the program) (www.georgiaHEART.org) to submit a post-June 30 tax credit pre-approval application to the Georgia Department of Revenue.

Please feel free to contact us at Day & Ennis if you have any questions about how to take advantage of the program.

Sincerely,
Day & Ennis, LLC

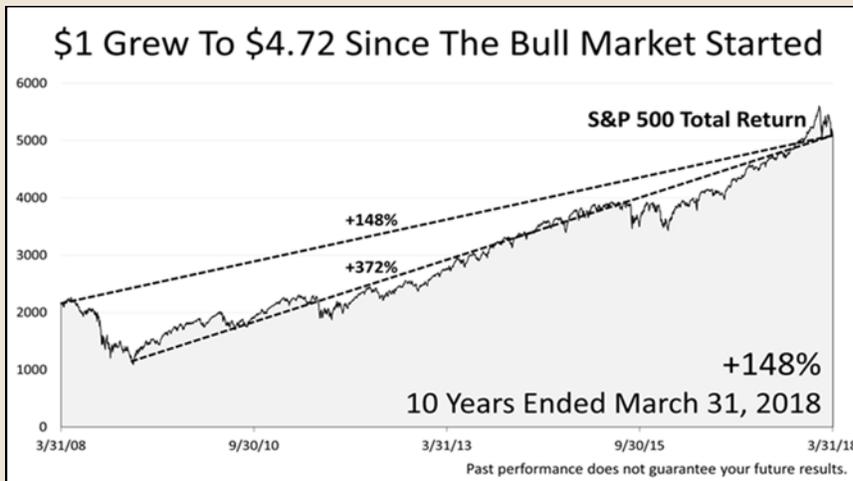
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10 Years After The Great Recession

Ten years ago, the economy was bleak. The U.S. was in a recession. The subprime mortgage crisis was undermining Bear Stearns, Lehman Brothers, Countrywide Financial, AIG, and other major financial institutions; General Motors looked like it might go out of business. Then, in a story for the ages, the nation bounced back and led the world out from The Great Recession.

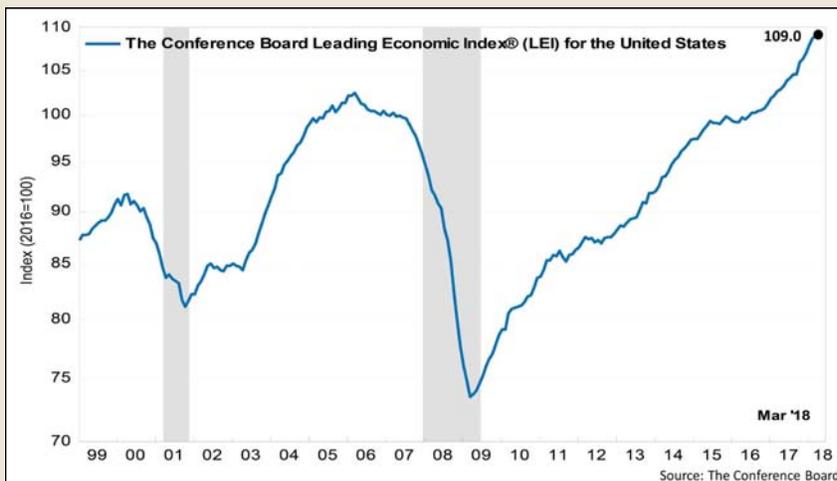
Over the last 10 years, a dollar in America's 500 largest public companies grew to \$2.48. From the stock market's low point on March 9, 2009, a dollar appreciated in value 4.75 times, to \$4.72 – a 372% return!

For the past decade, what makes America exceptional was in plain sight but difficult to see in the moment. It's never easy to see why U.S.



stocks would gain in value. The current period is no different. Share prices plunged 10.2% in

released in April continued a long surge far beyond the highest point of the last expansion. This key



early February, on inflation jitters, and again in March, on fears of a trade war. In April, *The Wall Street Journal* warned of a long period of weakness and cracks in global growth. Things looked bleak.

We're here to remind you that U.S. leading economic indicators

released in April continued a long surge far beyond the highest point of the last expansion. This key forward-looking composite of 10 indicators points to solid growth for the rest of 2018. Despite the headlines, increased market volatility, and a weak first quarter return on stocks, very strong economic fundamentals remain in place. We're here to help you manage your portfolio for the long run. ●

Giving More To Loved Ones – Tax-Free

While it may be better to give than to receive, as the adage contends, both givers and receivers should be happy with the new tax law. The annual amount you can give someone tax-free has been raised to \$15,000, from \$14,000 in 2017.

Exempting \$15,000 annually from gift tax, over time, transfers a lot of wealth to those you care about during your lifetime, while avoiding the tender mercies of the tax man, and married couples can have double the fun.

Take the example of a husband and wife with three married children and

six grandchildren. The husband can give \$15,000 each to his married children and the same amount to their spouses, and also \$15,000 to the half-dozen grandchildren — totaling \$180,000 — and his wife can do the same for the same 12 beneficiaries. The grand total is \$360,000 per year. No federal tax will be levied on these transfers of your wealth to family as well as friends.

In addition, you can give more than the annual exemption caps for college savings. The Tax Cuts and Jobs Act (TCJA) permits bunching five years of \$15,000 annual gifts into one year, by plugging it into a 529

college savings plan for a child or grandchild. That's \$75,000 in total. Assets in 529 savings plans grow tax-free, if used to pay qualified education expenses.

Gifts made during your lifetime reduce your exemption from tax on your estate. The TCJA more than doubled the estate tax exemption in 2018 from \$5.5 million to \$11.2 million for individuals, and from \$11 million to \$22.4 million for couples. All of these new levels will increase with inflation, though the formula annually adjusting inflation is less generous than before.

Lifetime gifts can be made directly

New Ways To Influence The Next Generation

The Tax Cuts And Jobs Act of 2018 (TCJA) gives you more good reasons to help your children, grandchildren, great nieces and nephews. Any amount you give to a 529 account that's used to pay for qualified expenses for college as well as private or religious schooling before college is deductible. With tax reform eliminating all or a large chunk of state income-tax deductions for many individuals in 2018, giving to a 529 lightens your state income-tax load while perhaps changing a life of a family member or friend and influencing their values.

If a child in your family is affected by autism, ADHD, opioids, or any other modern maladies, you have new ways to benefit from the privilege of helping children with special needs.

The average annual rate of college inflation was double the overall inflation rate for the past decade, according to College Board data, and 529 assets hit \$279 billion in 2016, according to College Savings Plan Network — up almost 160% from 10 years earlier, as parents tried to keep pace with rising college costs.

Enacted two decades ago,

or through trusts. With a trust, you place the gift of cash, securities, or other assets in an entity set up to make the transfer of wealth after you die. The assets in the trust avoid probate court, and makes the transfer faster, less costly, less likely to be contested, and generally more sure-footed. Trusts can influence the values of your progeny by requiring the money you leave to be spent for religious, philosophical, or any variety of educational activities.



Section 529 plans have become popular because contributions grow tax-free and withdrawals for tuition, books, room and board are also tax-free. No limits are imposed on contributions, but your 529 may not exceed the estimated cost of a beneficiary's education expenses.



New rules for helping the next generation

Many states let you deduct 529 contributions from state income tax, and some also allow deductions made to out-of-state 529 plans. Almost all states offer 529s and permit out-of-state residents to invest. Here's how the new tax overhaul encourages 529 savings:

Savings on state income tax lowers federal liability. To the horror

A trust also shields assets left to your heirs from lawsuits and business creditors. Should your grandchild get divorced, the trust money is shielded.

The friendlier tax treatment of transfers under the TCJA affects your estate plan and how your assets will be spent after you are gone, but it also may change your plan for gifting during your lifetime. Giving assets during your lifetime can be satisfying because you can witness your impact and influence on the future of your family. ●

of high-tax states, federal deductions for state income, property and sales tax were limited for 2018, and annually through 2026, with a \$10,000 limitation. Still, 41 states have an income tax and New Hampshire and Tennessee tax dividends and other investment income, and about three dozen states allow deductions for 529 contributions. Your gifts to 529s lower your income subject to federal as well as state income tax, easing the pain of losing the federal deduction for state and local taxes.

Paying for private school tuition. 529s to pay for kindergarten through 12th grade are now permitted, but you must check to see if your state allows you to deduct 529s used to pay for private schools.

Consider financial aid. A 529 might hurt a child's chances for financial aid at private high school and penalize an applicant for Federal Student Aid (FAFSA) for college.

Children with special needs. This bolsters a federal tax break for those who become blind or disabled before age 26. It also covers education for modern maladies, like ADHD and autism. Enacted in 2014, ABL accounts make gifts to individuals with special needs eligible for tax-free growth in 529 accounts. The 529 accounts are not figured into eligibility for Medicaid, Social Security income or Supplement Security Income (SSI) payments.

Deduct up to \$15,000 a year by giving to an ABL account from a 529. Spouses get twice as much benefit. Withdrawals are tax-free for qualified expenses, like employment training, housing, fighting autism, ADHD and overcoming disabilities.

If you have the privilege to be able to help the next generation and want to finance religious school, military training, or help a child with special needs, this is a loophole for you. Please let us know if we can assist you with making this happen. ●

