MALLARD Money Matters

January 2018

NOTICES

Paul will be in legislative session in Dover Tuesday through Thursday afternoons, January 9 - 25, March 13-29 and April 17-May 10. He will be attending a TD Ameritrade investment conference in Orlando, January 31-February 2. He will then be vacationing in St John, February 5-16.

Jacqie will be out of the office January 2-31 for class in Cambridge, MA, as well as March 16-19.

Diana will be vacationing in Georgia January 29-February 7.

Alan will be out of the office February 1-5.

Pam will be in Boston January 30-31, and on vacation in St John February 5-16.

Joe will be out of the office March 4-9 and March 20-23.

Chris will be on vacation March 29-April 6.

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Tax Law Changes—What to Expect

Alan Menase

Taxes – a single word that can cause people to run for the hills. We were expecting tax simplification. What they passed is a tax bill that is over 1000 pages. In this article, we will identify some of the ways it may affect you. In all likelihood, the tax law will almost certainly impact you in one way or another; probably by lowering your taxes. However, most of these changes are set to expire after 2025.

Standard Deduction and Personal Exemption: In 2018, the standard deduction increases to $12,000 (from $6,350) for individuals and $24,000 (from $12,700) for married couples. However, personal exemptions ($4,050 per person in 2017) are eliminated in 2018 and beyond.

What this means for you: You likely will fare better if you previously took the standard deduction and expect to take the standard deduction again in 2018. Bear in mind, the increased standard deduction amount in 2018 significantly decreases your likelihood of itemizing your deductions for 2018. For taxpayers who are charitably inclined, it may make sense to “bunch” your charitable contributions all in one year to receive a more significant tax benefit, or you can make qualified charitable distributions from your Traditional IRA or beneficiary IRA if you are at least 70½ years of age.

Tax Brackets: The tax brackets in 2018 (10%, 12%, 22%, 24%, 32%, 35% and 37%) are lower than the tax brackets in 2017 (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%).

What this means for you: Taxpayers in five of the seven marginal tax brackets in 2018 receive a rate reduction. However, many of the income ranges associated with each of the rates have been reduced. How can you determine what your marginal tax bracket is? Look no further than to taxable income, which can be found on line 43 on page two of your Federal Form 1040 tax return. Google *2018 marginal tax brackets* to find your tax rate based on your taxable income and your filing status (i.e., single, married filing jointly, head of household, etc.).

Inflation Adjustments: The new bill changes the way the annual cost of living will be calculated from the Consumer Price Index for Urban Consumers (CPI-U) to the Chained Consumer Price Index for Urban Consumers (C-CPI-U). This change will apply to various tax provisions such as the standard deduction, the regular income tax brackets, the IRA contribution limits (and deductible amounts), and others.

What this means for you: Generally speaking, C-CPI-U rises at a slower pace than CPI-U. Going forward, the tax brackets may not increase as quickly as they used to, which may result in taxpayers being subject to higher income tax brackets more quickly than before.

Itemized Deductions (Schedule A). There are many changes. For instance:

- In 2017 and 2018, you can deduct out-of-pocket medical expenses in excess of 7.5% of your Adjusted Gross Income (AGI). This was 10%. This will help people who itemize and have large medical expenses.

- In 2018, you can deduct up to a maximum $10,000 of the total of your state and local property, and income/sales taxes. This will hurt people who pay more than $10,000 per year.

- In 2018, you can deduct the interest paid on your mortgage (up to a mortgage existing debt limit of $750,000), but interest on home equity debt is no longer deductible. This will hurt people with mortgages over $750,000 or have home equity loans.

- In 2018, you can deduct casualty losses (e.g., from a house fire, flood, or theft) only if the loss is related to a "federally declared disaster" area. This will allow fewer people to take an itemized deduction for a casualty loss.

- In 2018, miscellaneous itemized deductions subject to the 2% AGI limit (e.g., investment fees, tax preparation fees, and unreimbursed business expenses) will no longer be deductible. This virtually eliminates all miscellaneous itemized deductions. However, gambling losses and a few other deductions are still available. Note: Investment fees deducted directly from IRAs are not affected.

- The AGI phase-out of itemized deductions for higher-income taxpayers (e.g., in 2017, $313,800 for married couples filing jointly or $261,500 for singles) is repealed for 2018. This will allow high-income taxpayers to deduct all of their itemized deductions.

Qualified Business Income Deduction: Up to 20% of all business income profits earned by a partnership, LLC, S corporation or sole proprietorship is exempt from taxation. This deduction is phased-out for certain higher- income recipients who work in "service" industries, such as doctors and lawyers.

What this may mean for you: This deduction may allow you to reduce your taxable income if you are a business owner. Also, the 20% deduction would apply to dividends from a Real Estate Investment Trust (REIT) as well as income from a publicly-traded partnership.

Child Tax and Dependent Credit: The child tax credit increases from $1,000 to $2,000 in 2018. This credit applies to children under the age of 17 (at the end of the calendar year). Also, a new $500 credit is available for qualifying dependents who are not eligible for the regular child tax credit due to age. These credits will be phased out if a married couple's AGI exceeds $400,000 or if a single person's AGI is higher than $200,000.

What this may mean for you: In many cases, these changes will offset the loss of the personal exemption for dependents.

529 accounts: You will be able to withdraw up to $10,000 per child, each year, to pay tuition at a private or religious elementary or high school. (***NOTE****: The original version of this article incorrectly stated that 529 plans could now be used for homeschooling expenses. That provision was removed from the bill shortly before it was finalized.)*

What this may mean for you: Previously, 529 account owners could make tax-free withdrawals for qualified education expenses incurred by the beneficiary for college and graduate school. With the added flexibility to withdraw up to $10,000 to pay for eligible expenses for a child in elementary or high school, the 529 account is a far more attractive option than the Coverdell Education Savings Account, which has a lower contribution limit per child and is only available below a certain income level.

Alimony: An ex-spouse will no longer be able to deduct alimony payments, and the person receiving the payments will no longer be required to pay tax on the income received. This will apply to divorce and separation instruments executed starting in 2019. However, it may apply to an existing divorce agreement if it is altered.

What this may mean for you: In general, for future divorces, payers of alimony will pay more tax and the recipient will pay less tax.

Alternative Minimum Tax (AMT) Exemption: The bill increased the AMT exemption amount to $109,400 for married taxpayers filing a joint tax return (from $84,500 in 2017).

What this may mean for you: This will reduce the number of taxpayers subject to AMT and therefore may reduce their taxes.

Gift and Estate Taxes: The gift tax exclusion (the amount you may pay on certain transfers made during your lifetime) and the estate tax exclusion (the amount you may pay on certain transfers after death) doubles to about $11 million per person (indexed for inflation).

What this means for you: For most people, the likelihood of paying gift or estate taxes decreased from small to very small.

There are some tax law changes that were discussed but did not make the final bill. For instance:

- Taxpayers can continue to identify a specific tax lot to sell or donate from an investment holding. For instance, taxpayers may prefer to donate shares of stock with the lower cost basis instead of selling those same shares and paying taxes on the gain.
- With some exceptions, the level of income associated with the gain from the sale of a primary residence ($250,000 for individuals or $500,000 for couples) remains in place for taxpayers that owned and used their primary residence for at least two of the last five years ending on the date of the sale.
- The new law preserves the potential step-up in basis for assets transferred at death.
- Teachers will continue to be allowed to deduct $250 for supplies and other materials provided for their classrooms.

There are a lot of tax law changes to digest. While we at Mallard do not prepare taxes, we recognize the importance of tax planning. The complexities and details of many of these changes will create new challenges. At Mallard, we strive to stay current on ever-changing tax landscapes. We will continue to ask the same questions to ourselves and our clients in 2018 and beyond. For instance, does it make sense to consider a Roth conversion? If so, the amount to convert is critical, because if you do a Roth conversion in 2018, you will not be able to do a recharacterization of that 2018 Roth conversion due to this law change. However, if you contribute to a Traditional IRA or Roth IRA and seek to change your contribution to the other type of IRA, you will still be able to do so. Whatever your questions and concerns may be, we are happy to work with you to help you reach your financial goals.

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Working together, building your financial security

Compliance Corner

Pam Baumbach

Just as most employees have an annual performance review at work, at Mallard we perform an annual Compliance Review on ourselves. We want to ensure adherence with the Fiduciary standard and compliance with all SEC rules and regulations.

Compliance is a responsibility of everyone at Mallard. Any compliance-related question should be submitted to me (the Chief Compliance Officer) for an opinion. Our compliance committee includes all department heads and helps foster our culture of compliance.

Cybersecurity has become a key part of our compliance program. We are working to identify and manage cybersecurity risks. We are now even more vigilant about protecting work-in-progress in the office. We are incorporating cyber-training and testing into our regular compliance program.

We hold mandatory, all-employee compliance training sessions at least annually. We performed five compliance tests this past year. Testing helps us confirm adherence with our compliance policies. It also helps us prepare for an eventual SEC exam.

There's a lot of compliance paperwork at a financial services firm!

Every year, all employees read our Compliance Policy Manual (which has recently been updated). As part of our Code of Ethics, employees disclose their involvement with outside businesses, political contributions made, gifts/entertainment received, and personal security holdings and trading activities. We also monitor our employees' use of professional designations and social media that mentions Mallard.

All of this is designed to prevent and detect conflicts of interest or bad behavior. Our compliance program continues to develop and improve to meet the business and regulatory challenges.

Your questions and comments are always welcome.

News and Events

A **Delaware Money School** presentation will be made by Ed Mink at the Newark Free Library:

<u>Monday, March 19, 2018 - 6:30pm to 8:30pm</u>
Social Security Benefits