Ten Ways to Take Advantage of the 2018 Tax Law: An Executive Briefing

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Welcome

Housekeeping

- Drinks and appetizers are in the back
- Please silence cell phones
- Restrooms are outside the conference center, to the left down the hall
- WIFI password is: **929Guest**
- Save questions for closing Q&A

Agenda

6:15-6:30	Introduction
6:30-6:45	CPA tax strategies
6:45-7:00	Legal/estate tax strategies
7:00-7:15	Financial tax strategies
7:15-7:25	Q&A
7:25-8:00	Closing, Evaluation forms, Parking validation Networking/Socializing

Tax Brackets for 2018 vs 2017

2018 Tax Rates Standard Deduction (MFJ) $24,000 (Single) $12,000		2017 Tax Rates Standard Deduction (MFJ) $12,700 (Single) $6,350	
10%	0 to $19,050	10%	0 to $18,650
12%	$19,050 to $77,400	15%	$18,650 to $75,900
22%	$77,400 to $165,000	25%	$75,900 to $153,100
24%	$165,000 to $315,000	28%	$153,100 to $233,350
32%	$315,000 to $400,000	33%	$233,350 to $416,700
35%	$400,000 to $600,000	35%	$416,700 to $470,700
37%	Over $600,000	39.60%	Over $470,700

Tax Cuts and Job Act Key Changes

- Increased the standard deduction
- Eliminated the personal exemption
- Child tax credit increased from $1,000 to $2,000
- Mortgage interest deduction is capped at $750,000 instead of $1 million
- Home equity interest is no longer deductible
- State and local taxes are limited to $10,000
- Medical expense floor reduced to 7.5% of AGI instead of 10%
- Eliminated miscellaneous itemized deductions
- The Estate tax exemption increased to $11.2 million per individual
- Elimination of Roth recharacterizations

Married couple with no dependents

	2017	2018	Difference
Wages	17,118	17,118	
Interest & Dividends	419,618	419,618	
Capital Gain	599,681	599,681	
Schedule E Income	(208,470)	(208,470)	
Adjustments	(13,552)	(13,552)	
Adjusted Gross Income	**814,395**	**814,395**	
Total Taxes Paid	18,027	18,027	
Tax Deduction Allowed	18,027	10,000	(8,027)
Interest Paid	1,124	1,124	
Charity	79,290	79,290	-
Miscellaneous Itemized Deductions	108,498	22	(108,476)
Total Itemized Deduction	**206,939**	**90,436**	**(116,503)**
Itemized Deduction Phase out	15,018	-	
Total Itemized Deductions Allowed	**191,921**	**90,436**	**(101,485)**
Exemptions (2)	-	-	-
Taxable Income	622,474	723,959	101,485
Tax on Taxable Income	140,086	163,528	23,442
AMT	**32,575**	**-**	**(32,575)**
Tax Due	**172,661**	**163,528**	**(9,133)**

Married couple with dependents

	2017	2018	Difference
Wages	1,074,394	1,074,394	
Interest & Dividends	2,837	2,837	
Capital Gain	147,896	147,896	
Adjusted Gross Income	**1,225,127**	**1,225,127**	
Total Taxes Paid	26,623	26,623	
Tax Deduction Allowed	26,623	10,000	(16,623)
Interest Paid	35,627	35,627	
Charity	11,954	11,954	
Total Itemized Deduction	**74,204**	**57,581**	**(16,623)**
Itemized Deduction Phase out	27,340	-	27,340
Total Itemized Deductions Allowed	**46,864**	**57,581**	**10,717**
Exemptions (4)	-	-	-
Taxable Income	1,178,263	1,167,546	(10,717)
Tax Due	**385,535**	**345,855**	**(39,680)**

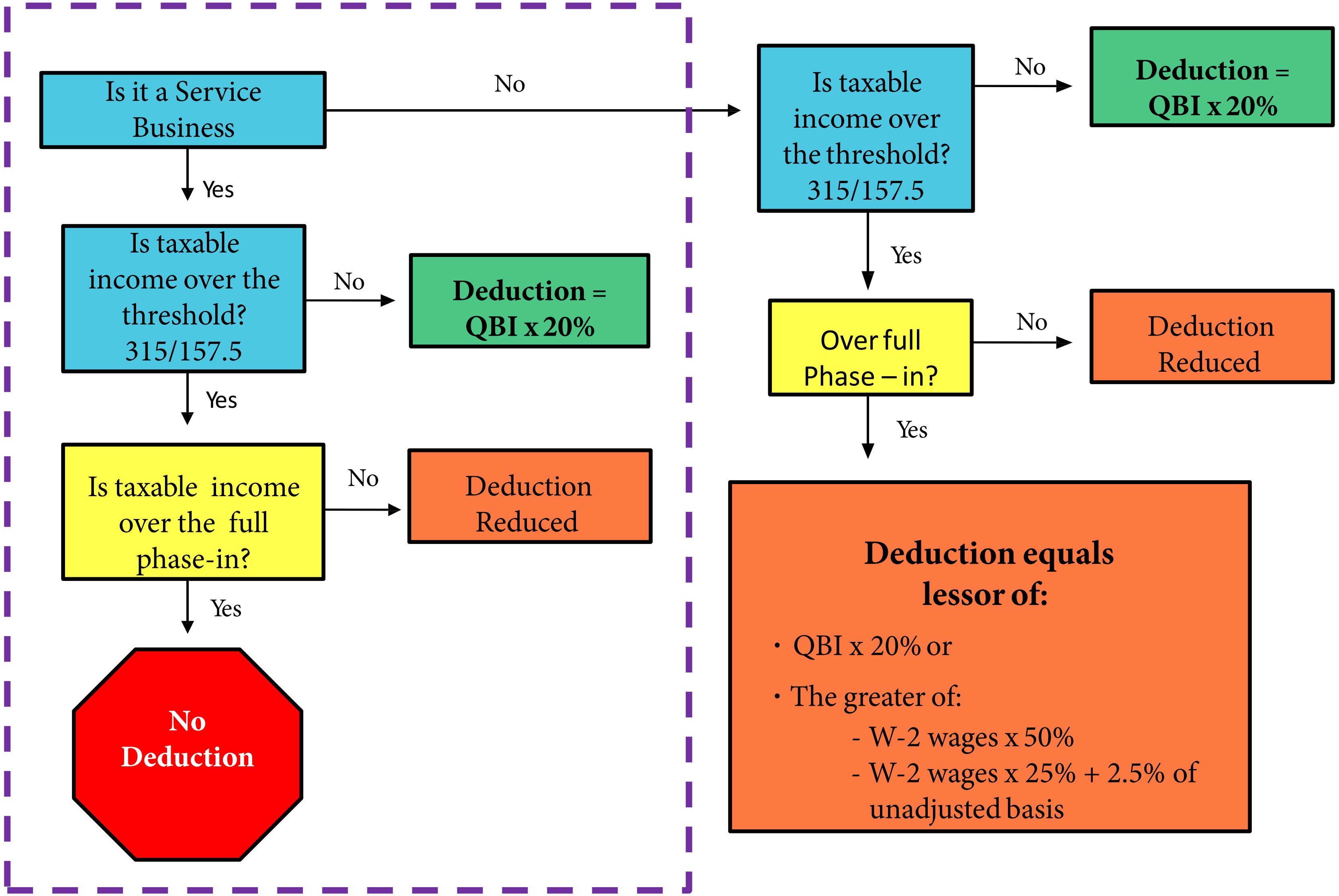
Older Single taxpayer

	2017	2018	Difference
Interest & Dividends	10,620	10,620	
IRA Distributions	27,522	27,522	
Taxable Social Security	21,854	22,291	437
Adjusted Gross Income	**59,996**	**60,433**	
Medical Expenses	3,322	3,290	(32)
Total Taxes Paid	16,339	16,339	
Tax Deduction Allowed	16,339	10,000	(6,339)
Charity	11,775	11,775	
Total Itemized Deduction	**31,436**	**25,065**	**(6,371)**
Exemption	4,050	-	(4,050)
Taxable Income	**24,510**	**35,368**	**10,858**
Tax Due	**2,800**	**3,726**	**926**

Married couple with sole proprietorship

	2017	2018	Difference
Wages	2,525	2,525	
Interest & Dividends	55,307	55,307	
Business Income	182,526	182,526	
Schedule E Income	(1,802)	(1,802)	
Adjustments	(64,929)	(65,004)	75
Adjusted Gross Income	**173,627**	**173,552**	
Total Taxes Paid	20,410	20,410	
Tax Deduction Allowed	20,410	10,000	(10,410)
Interest Paid	8,947	8,947	
Charity	7,510	7,510	
Total Itemized Deduction	**36,867**	**26,457**	**(10,410)**
Exemptions (6)	24,300	-	(24,300)
Taxable Income before QBID	112,460	147,095	34,635
Qualified Business Deduction		**29,419**	**(29,419)**
Taxable Income	**112,460**	**117,676**	**5,216**
Tax on Taxable Income	18,419	16,946	(1,473)
Child Tax Credit	800	6,500	5,700
Tax Due	**17,619**	**10,446**	**(7,173)**

Qualified business income deduction



If you are going to lose most of your itemized deductions (or they are now capped) what are your options in 2018 to offset that?

- Significant revamping of what is and is not deductible
- Medical deduction threshold is 7.5% for 2017 & 2018 but increases to 10% starting in 2019
- Mortgage interest limited to $750k of debt (but grandfathered if money was borrowed before 12/15/17)
- Home Equity Interest Loans (HELOC's) no longer deductible
- State and local tax deduction is limited to $10k ($5k if Married Filing Separately)
- Misc. deductions subject to 2% threshold are no longer deductible
- No deduction for alimony payments
- No more allowances for dependent children
- Cannot deduct moving expenses
- Cannot deduct legal fees, CPA fees or investment advisor fees

Major Opportunity! New Section 199A Qualified Business Income "QBI" Deduction

- AKA 20% pass-through deduction
- Qualified Business Income "QBI" New section 199A
- Rental would qualify?
- Limited to lower of 20% of QBI or greater of 50% of W-2 wages, or 25% of W-2 wages, plus 2.5% of the unadjusted basis of the LLC's assets
- Does not include STCG, LTCG interest, dividends
- Excludes specified service businesses in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services and brokerage services
- This change is temporary, sunsets end of 2025

As of Jan 1, 2018, the US estate tax exemption is $11,180,000!

- The US Estate Tax Exemption has doubled and is indexed to increase with inflation. But this will expire in 2025, so there is a short window to plan wealth transfers. The annual gift tax exclusion amount for 2018 is $15,000.

- Since 2010, MORE BASIS has become the Holy Grail of Planning. There are primarily two ways to accomplish this:
  Die "owning" the appreciated asset
  Pay taxes on the sale of the appreciated asset

For many today, the "die option" has become less "costly" as a result of the increased transfer tax exemption. So key decisions must be made and revolve around what each person wants to accomplish:

*High Basis: Minimize future gain on sale of assets
*No Tax on Transfers During Life or at Death: Avoid the 40% federal tax and the WA Estate tax if at all possible.
*Create Trusts to protect your loved ones from up to 100% loss due to creditors, divorces, lawsuits, or incapacity

- Congress will almost certainly REDUCE the estate tax exemption and INCREASE the estate tax rate after 2025. Get ready!

The 2018 Washington Estate Exemption Has Increased To $2,193,000

- How this fits in to all of the above- folks STILL NEED TO DO ALL the PLANNING AS BEFORE!

- This exemption is just too small for many estates to avoid the Washington estate tax. The tax rate is between 10-20% depending on the size of the estate, and this is in addition to the US Estate Tax.

- And while proper estate planning will mitigate your estate and transfer taxes, it is about *far more than minimizing taxes.* You should be mindful of the need to:
  *Get a plan in place if you do not have one
  *Update your documents if they are more than 3 years old
  *Review all of your insurance coverages across the board
  *If you have minor children, protect them!
  *Create asset protection for all of your heirs

How the new tax laws impact US residents, green card holders and non resident aliens

*US residents, green card holders and foreign nationals that own US assets face unique planning traps and opportunities

*Foreign Nationals with US assets only have a $60,000 exemption against the estate tax (with some exceptions). Example: If a citizen of China owns a $2 million home in Bellevue and passes away with no plan, $1,940,000 of that home value will be taxed at 40% upon death of the owner, and this tax ($776,000) must be paid within 9 months of death in cash.

*If a non US citizen marries a US citizen, which is very common, and the US citizen gifts more than $152,000 in assets (in 2018) to his or her non citizen spouse, there is a 40% tax imposed on the US citizen. Same example as above, the tax to pay from adding a spouse on to that Bellevue house title would be approximately $339,200.

SOLUTION: Create a United States Trust to own the US Assets, and designate a United States Trustee so that in the event of death, a fire sale of fixed assets or lack of liquidity does not create financial hardship or emergency for your loved ones. Life insurance can solve a lot of potential problems under the above scenarios.

The two safe harbors that are still 100% income tax free forever

- Do you want to remove the IRS from your retirement picture? If yes, there are two assets that are INCOME TAX FREE FOREVER and could change your life. These are:

- ROTH IRA's- have contribution limits but a powerful option if you are in lower income tax brackets.

- LIRP's (Life Insurance Retirement Plans) have no contribution limits. Over 85% of CEO's in Fortune 500 companies have created these because they make too much money to contribute to a ROTH and it is the best option to maximize their income tax free retirement portfolio.

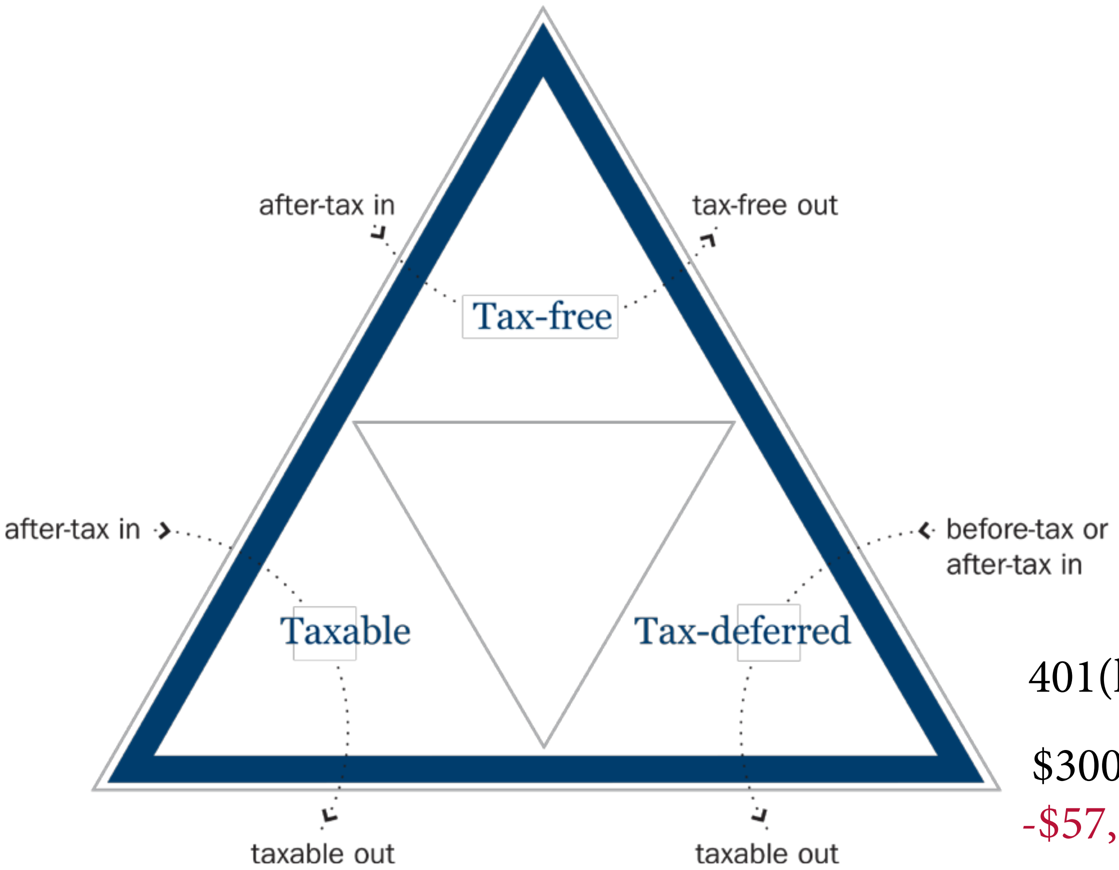
- Both are wonderful tools that can create financial freedom for you in your retirement years and a powerful legacy for the next generation of your family to inherit.

Two books I recommend that you pick up and read, both written by David McKnight, that illustrate the above concepts extremely well:

THE POWER OF ZERO; AND LOOK BEFORE YOU LIRP

Scenario 1

- $300,000 gross income
- 100% from 401(k)/IRA
- $57,000 in estimated taxes
- $233,000 net income



401(k) or IRA

$300,000 *(gross income)*
-$57,000 *(tax)*

$233,000
(Net)

These figures are shown for illustration purposes only and are not guaranteed.
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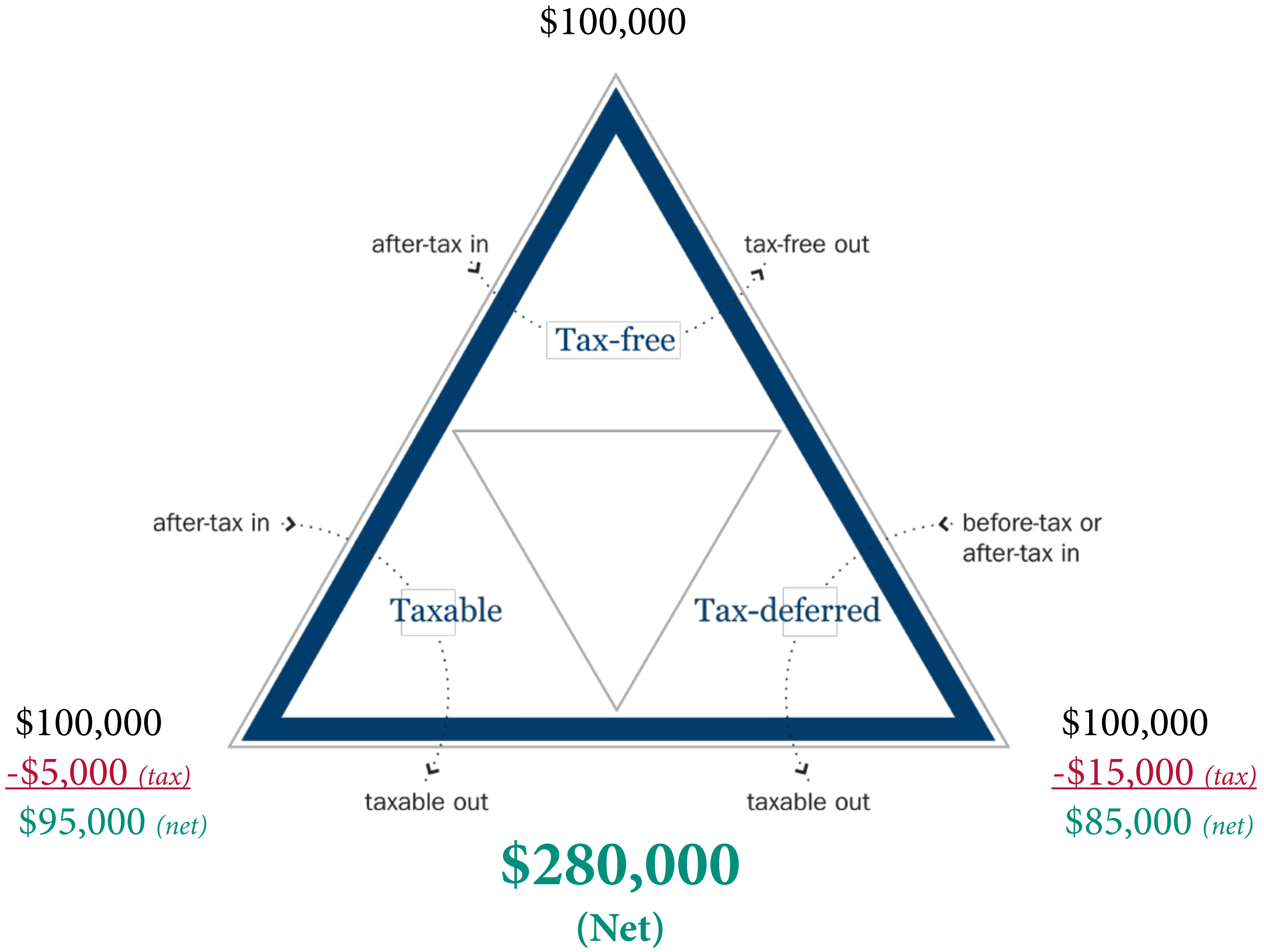
Scenario 2

- Same income, $300,000 gross
- $100,000 from each 'bucket'
- $20,000 paid in taxes
- $280,000 in net income

$280,00
-$243,000
=$37,000 annual difference

Diversify assets from a tax standpoint



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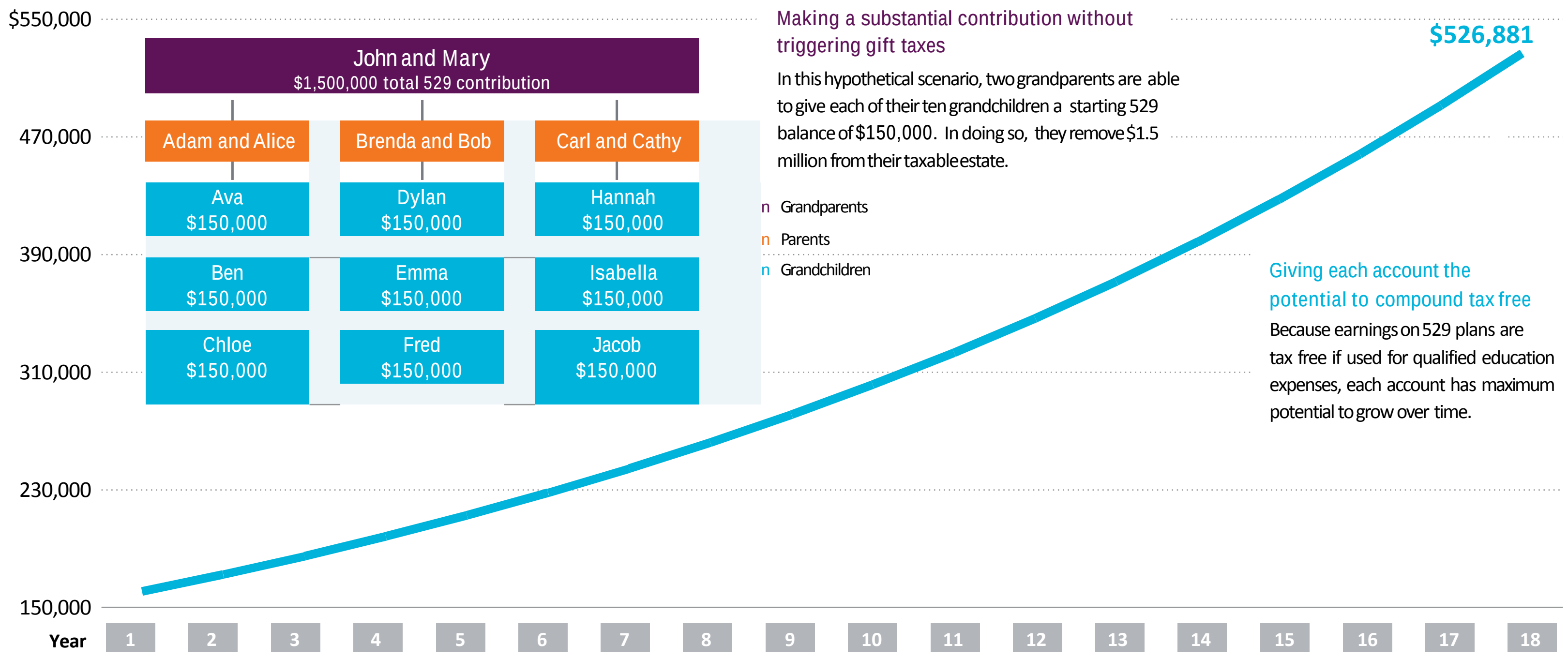
Create an educational legacy with 529 gifting

Many families are taking advantage of the estate planning benefits offered by 529 education savings plans. Contributions are considered completed gifts that reduce the value of a donor's estate, and the accelerated gifting feature lets you make five years' worth of contributions in a single year—up to $75,000 ($150,000 for couples filing jointly) per child or grandchild—without triggering federal gift taxes.[1] The result is a powerful educational legacy that may also help lower estate taxes.

Special 529 gifting rules can greatly increase the power of a single gift



1 For 2018. State laws and treatment may vary. Earnings on nonqualified distributions will be subjected to a 10% federal penalty tax. Please speak with your tax advisor for more information.

Source: John Hancock Investments, 2018. The above illustration does not depict an investment in John Hancock Freedom 529 and is a hypothetical example for comparison purposes only. Rates are subject to change. This illustration does not reflect the effect of asset charges and account fees. These fees would reduce the performance shown in the above illustration. The investment return and principal value of an investment may fluctuate so that distributed investments may be worth more or less than their original value. Tax deferral may work best for long-term goals. The projected values assume an initial lump sum of $150,000 is invested for 18 years at a hypothetical compound annual growth rate of 7%, accrued monthly.

Tax benefits associated with inherited IRAs

- Allows the beneficiary to retain the tax deferred status of the assets
- Required Minimum Distribution begins the year after death of original IRA owner
- For most taxpayers, this is far more tax efficient than taking a 100% lump sum distribution out upon death of the original IRA owner
- Potential downsides
  - Beneficiaries tax rates could increase over time
  - Could be subject to additional market risk

Be sure to discuss the risks, in addition to the potential benefits, of an IRA rollover with your advisor before implementing. As with any decision that has tax implications, you should consult with your tax advisers prior to implementing an IRA rollover.

Q&A

Thank you for attending

Please submit your evaluation form to receive parking validation

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