Tax Reform 2017: Lessening the Burden
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Goals

- Which tax provisions stayed the same?
- Which tax provisions will (generally) lead to lower taxes?
- Which tax provisions will (generally) lead to higher taxes?

- And of course, strategies to take advantage of all of these
Agenda

• Important tax provisions that have gone unchanged
• Lowering of ordinary income tax rates
• Increased standard deduction
• Increase AMT exemption and phase-out range
• New 20% deduction for qualified business income
• Elimination of miscellaneous itemized deductions subject to the 2% of AGI limit
• Limiting SALT (state and local tax) deduction
• Elimination of recharacterization of conversions
What stayed the same?
Important tax provisions that have gone unchanged

- No change to long-term gains/qualified dividend rates
- No change to the ability to specifically identify lots of stock/bond/ETF/mutual fund to be sold
- No change to the step-up in cost basis at death
- Backdoor Roth is still allowed
- No change to retirement plan contribution limits
Stayed the same - retirement plans

Provision
- Retirement plan contribution/deduction limits
  - Indexed for inflation, but no substantive changes
  - Still able to deduct full contributions (subject to income limitations)

Strategy
- For retirement goals, 401(k)s & IRAs should still be the go-to for most investors

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Contribution Limit</th>
<th>Catch Up Provision (age 50+)</th>
<th>Total Contribution Limit</th>
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<tbody>
<tr>
<td>IRA</td>
<td>$5,500</td>
<td>$1,000</td>
<td>$6,500</td>
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<tr>
<td>401(k)</td>
<td>$18,500</td>
<td>$6,000</td>
<td>$24,500</td>
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</tbody>
</table>
What will (generally) lead to lower taxes?
## Lowering ordinary income tax rates

### Tax rates/brackets for 2018 if no legislation had been passed

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Single</th>
<th>Married Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>15%</td>
<td>$9,525</td>
<td>$19,050</td>
</tr>
<tr>
<td>25%</td>
<td>$38,700</td>
<td>$77,400</td>
</tr>
<tr>
<td>28%</td>
<td>$93,700</td>
<td>$156,150</td>
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<td>$424,950</td>
</tr>
<tr>
<td>39.6%</td>
<td>$426,700</td>
<td>$480,050</td>
</tr>
</tbody>
</table>

### Tax rates/brackets for 2018 after Tax Cuts and Jobs Act had been passed

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Single</th>
<th>Married Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>12%</td>
<td>$9,525</td>
<td>$19,050</td>
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<tr>
<td>22%</td>
<td>$38,700</td>
<td>$77,400</td>
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<tr>
<td>24%</td>
<td>$82,500</td>
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<tr>
<td>32%</td>
<td>$157,500</td>
<td>$315,000</td>
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<tr>
<td>35%</td>
<td>$200,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>37%</td>
<td>$500,000</td>
<td>$600,000</td>
</tr>
</tbody>
</table>
Increased standard deduction

- Standard deduction increased from $6,300 to $12,000 for Single and $12,600 to $24,000 for Joint filers
- Under the new law it is expected than ~5% of taxpayers will itemize their deduction from ~30% previously
- Less need to track itemized deductions
Increase AMT exemption and phase-out range

- The AMT exemption has been increased from $54,300 to $70,300 for single taxpayers and increased from $84,500 to $109,400 for married couples filing jointly.

- The beginning of the phase-out range has increased from $120,700 to $500,000 for single taxpayers and increased from $160,900 to $1,000,000 for married couples filing jointly.

- The number of taxpayers subject to AMT is expected to be reduced from ~5,000,000 to ~200,000.
New 20% deduction for QBI (qualified business income)

- Business income (other than for C-Corporations) is potentially entitled to a special 20% deduction
- The deduction can be claimed in addition to the standard or itemized deduction
- Limitations exist based on the type of business, amount of taxable income, the amount of W-2 wages paid, and the unadjusted basis of qualified property held by the business
- The deduction may be partially reduced or eliminated for service based businesses where income exceeds $157,500 (Single) or $315,000 (Joint filer)
What will (generally) lead to higher taxes?
Elimination of miscellaneous itemized deductions subject to the 2% of AGI limit

- Tax preparation fees
- Investment advisory fees
- Unreimbursed employee expenses
- Dues to professional societies
- Work-related education
Limiting SALT (state and local tax) deduction

- SALT deduction is now capped at $10,000
- Largest impact for clients in the highest tax states like NY, NJ, CA, MD etc.
- A number of states have proposed plans on ways to circumvent the limit (NJ charitable fund, NY payroll tax) which the IRS has initially indicated it may challenge
Elimination of recharacterization of conversions

- The undoing of a Roth conversion (technically known as a recharacterization) has been eliminated for conversions that occur in 2018 or later

- Recharacterization of 2017 Roth conversions is still permitted until October 15, 2018
How can Betterment for Advisors help?
Tax-Smart Technology

Unchanged Tax Provisions
- Roth Conversions
- TaxMin

Client is in a New Tax Bracket
- How to Save for Retirement
- Tax Impact Preview

Client No Longer Itemizes
- Charitable Giving
- Muni Bonds
- Tax Loss Harvesting
- Tax-Coordinated Portfolio
Questions?
Disclosures

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