Tax Reform 2017: Lessening the Burden

Betterment
For Advisors

Eric Bronnenkant, CPA, CFP®

Eric is Betterment's Head of Tax. His experience includes working for Ernst & Young and Fidelity Investments. Eric holds M.S. degrees in Accounting and Taxation from Seton Hall University as well as an MBA in Quantitative Finance from NYU. He also serves as an adjunct taxation professor at Seton Hall University.

Nick Holeman, CFP®, EA

Nick is Betterment's Senior Financial Planner. He earned his M.S. degree in Financial & Tax Planning and manages the team of financial advisors at Betterment. Nick has advised 1,000's of clients and speaks regularly on financial media outlets such as CNBC, Yahoo Finance & the New York Times.

Betterment
For Advisors

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)

Account Type	Contribution Limit	Catch Up Provision (age 50+)	Total Contribution Limit
IRA	$5,500	$1,000	$6,500
401(k)	$18,500	$6,000	$24,500

Strategy

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

What will (generally) lead to lower taxes?

Lowering ordinary income tax rates

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

Tax Rate	Single	Married Joint
10%	$0	$0
15%	$9,525	$19,050
25%	$38,700	$77,400
28%	$93,700	$156,150
33%	$195,450	$237,950
35%	$424,950	$424,950
39.6%	$426,700	$480,050

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

Tax Rate	Single	Married Joint
10%	$0	$0
12%	$9,525	$19,050
22%	$38,700	$77,400
24%	$82,500	$165,000
32%	$157,500	$315,000
35%	$200,000	$400,000
37%	$500,000	$600,000

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

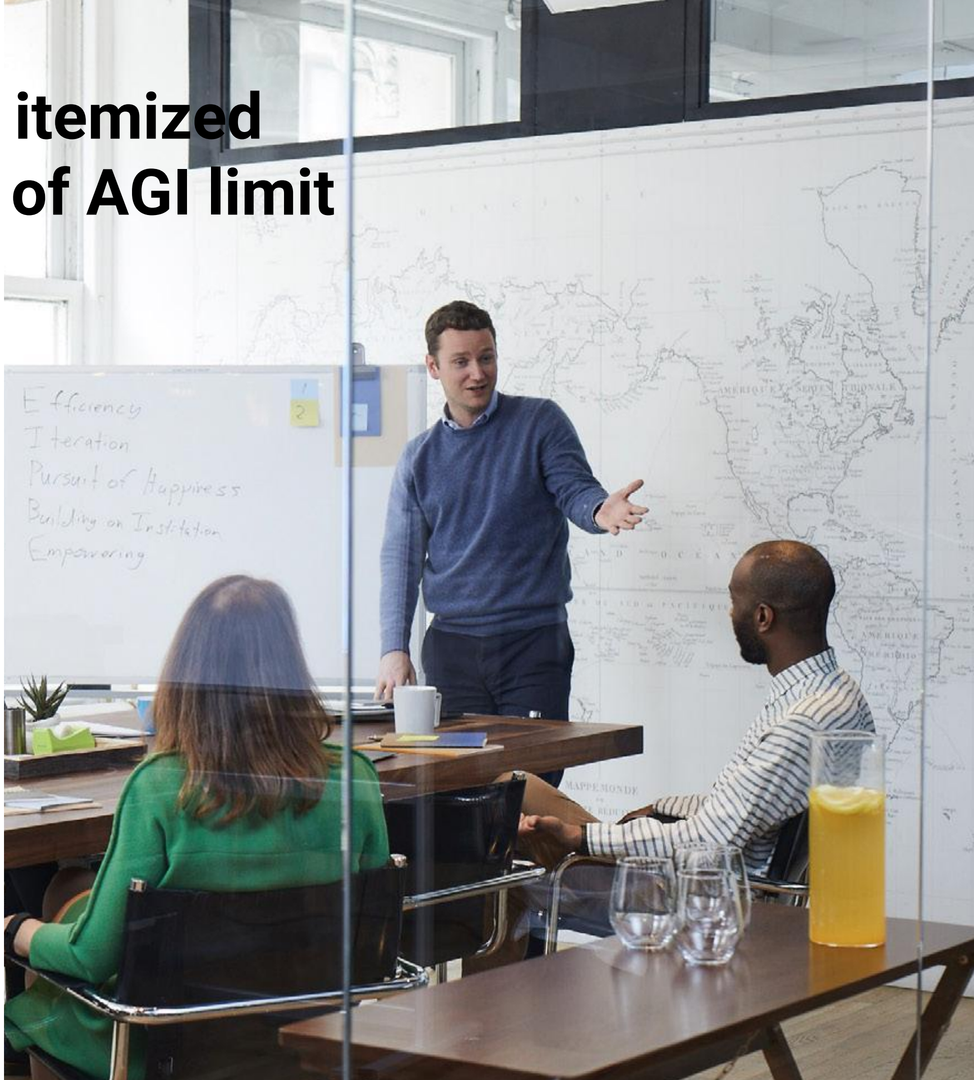
- Limitations exist based on the type of business, amount of taxable income, the amount of W-2 wages paid, and the unadjusted basis of qualified property held by the business

- 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?

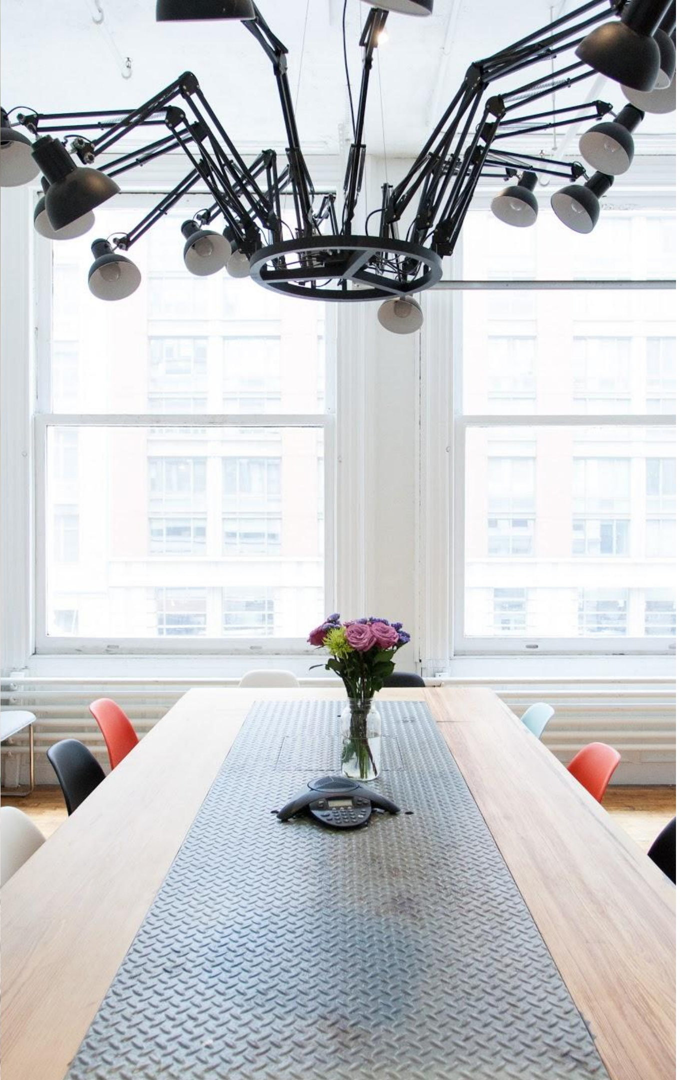
Elimination of miscellaneous itemized deductions subject to the 2% of AGI limit

- 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

Betterment is not a tax advisor, nor should any information herein be considered tax advice. Please consult a qualified tax professional.

This presentation is for investment professionals only. It is for educational purposes and not intended to be relied upon as investment or tax advice. All images are for illustrative purposes. For more information, visit Betterment.com

Investing in securities involves risks, and there is always the potential of losing money when you invest in securities. Before investing, consider your investment objectives and Betterment's charges and expenses.

Investments: Not FDIC Insured • No Bank Guarantee • May Lose Value.

Date

September 27th, 2018

Author

Eric Bronnenkant, CPA, CFP®, Head of Tax
eric.bronnenkant@betterment.com

Nicholas Holeman, CFP®, EA, Senior Financial Planner
nicholas.holeman@betterment.com

Betterment
For Advisors