Strategic Wealth Advisors
The SWA Team
8426 E. Shea Blvd.
Scottsdale, AZ 85260
ph: 480.998.1798
fax: 480.522.1798
info@xpertadvice.com
www.Xpertadvice.com

In most states, at age 18 your child legally becomes an adult. As a parent or guardian, there are several important issues to address. Your adult child will need a general durable power of attorney, healthcare power of attorney and HIPAA Release form to allow you, or a trusted individual, to help them with their finances and healthcare decisions should the need arise. He or she can register to vote and your son needs to register for Selective Service. Establishing a checking account and credit card might be beneficial to pay bills, deposit paychecks, build credit and develop financial responsibility. For new adults who are incapacitated, disabled or have special needs, there are more complicated issues to address such as Guardianships, Conservatorships and Government benefits. Call The SWA Team if you have questions or need a referral to an estate planning attorney.

Until September…

The SWA Team

August 2018

STRATEGIC
Wealth Advisors

The SWA Newsletter

Mid-Year Planning: Tax Changes to Factor In

The Tax Cuts and Jobs Act, passed in December of last year, fundamentally changes the federal tax landscape for both individuals and businesses. Many of the provisions in the legislation are permanent, others (including most of the tax cuts that apply to individuals) expire at the end of 2025. Here are some of the significant changes you should factor in to any mid-year tax planning. You should also consider reviewing your situation with a tax professional.

New lower marginal income tax rates

In 2018, there remain seven marginal income tax brackets, but most of the rates have dropped from last year. The new rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Most, but not all, will benefit to some degree from the lower rates. For example, all other things being equal, those filing as single with taxable incomes between approximately $157,000 and $400,000 may actually end up paying tax at a higher top marginal rate than they would have last year. Consider how the new rates will affect you based on your filing status and estimated taxable income.

Higher standard deduction amounts

Standard deduction amounts are nearly double what they were last year, but personal exemptions (the amount, $4,050 in 2017, that you could deduct for yourself, and potentially your spouse and your dependents) are no longer available. Additional standard deduction amounts allowed for the elderly and the blind remain available for those who qualify. If you're single or married without children, the increase in the standard deduction more than makes up for the loss of personal exemption deductions. If you're a family of four or more, though, the math doesn't work out in your favor.

Itemized deductions — good and bad

The overall limit on itemized deductions that applied to higher-income taxpayers is repealed, the income threshold for deducting medical expenses is reduced for 2018, and the income limitations on charitable deductions are eased. That's the good news. The bad news is that the deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area, and miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible. Other deductions affected include:

- **State and local taxes** — Individuals are only able to claim an itemized deduction of up to $10,000 ($5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- **Home mortgage interest deduction** — Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior $1 million limit will continue to apply. No deduction is allowed for interest on home equity loans or lines of credit unless the debt is used to buy, build or substantially improve a principal residence or a second home.

Other important changes

- **Child tax credit** — The credit has been doubled to $2,000 per qualifying child, refundability has been expanded, and the credit will now be available to many who didn't qualify in the past based on income; there's also a new nonrefundable $500 credit for dependents who aren't qualified children for purposes of the credit.
- **Alternative minimum tax (AMT)** — The Tax Cuts and Jobs Act significantly narrowed the reach of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.
- **Roth conversion recharacterizations** — In a permanent change that starts this year, Roth conversions can't be "undone" by recharacterizing the conversion as a traditional IRA contribution by the return due date.

Tax Benefits of Homeownership After Tax Reform

Recent tax reform legislation may have reduced the tax benefits of homeownership for some by (1) substantially increasing the standard deduction, (2) lowering the amount of mortgage debt on which interest is deductible, and (3) limiting the amount of state and local taxes that can be deducted. On the other hand, the tax benefits of homeownership may have increased for some because the overall limit on itemized deductions based on adjusted gross income has been suspended. You generally can choose between claiming the standard deduction or itemizing certain deductions (including the deductions for mortgage interest and state and local taxes). These changes are generally effective for 2018 to 2025.

Buying a home can be a major expenditure. Fortunately, federal tax benefits are still available, even after recent tax reform legislation, to help make homeownership more affordable. There may also be tax benefits under state law.

Mortgage interest deduction

One of the most important tax benefits of owning a home is that you may be able to deduct the mortgage interest you pay. If you itemize deductions on your federal income tax return, you can deduct the interest on a loan secured by your home and used to buy, build, or substantially improve your home. For loans incurred before December 16, 2017, up to $1 million of such "home acquisition debt" ($500,000 if married filing separately) qualifies for the interest deduction. For loans incurred after December 15, 2017, the limit is $750,000 ($375,000 if married filing separately).

This interest deduction is also still available for home equity loans or lines of credit used to buy, build, or substantially improve your home. [Prior to 2018, a separate deduction was available for interest on home equity loans or lines of credit of up to $100,000 ($50,000 if married filing separately) used for any other purpose.]

Deduction for real estate property taxes

If you itemize deductions on your federal income tax return, you can generally deduct real estate taxes you pay on property that you own. However, for 2018 to 2025, you can deduct a total of only $10,000 ($5,000 if married filing separately) of your state and local taxes each year (including income taxes and real estate taxes). For alternative minimum tax purposes, however, no deduction is allowed for state and local taxes, including property taxes.

Points and closing costs

When you take out a loan to buy a home, or when you refinance an existing loan on your home, you'll probably be charged closing costs. These may include points, as well as attorney's fees, recording fees, title search fees, appraisal fees, and loan or document preparation and processing fees. Points are typically charged to reduce the interest rate for the loan.

When you buy your main home, you may be able to deduct points in full in the year you pay them if you itemize deductions and meet certain requirements. You may even be able to deduct points that the seller pays for you.

Refinanced loans are treated differently. Generally, points that you pay on a refinanced loan are not deductible in full in the year you pay them. Instead, they're deducted ratably over the life of the loan. In other words, you can deduct a certain portion of the points each year. If the loan is used to make improvements to your principal residence, however, you may be able to deduct the points in full in the year paid.

Otherwise, closing costs are nondeductible. But they can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Home improvements

Home improvements (unless medically required) are nondeductible. Improvements, though, can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Capital gain exclusion

If you sell your principal residence at a loss, you can't deduct the loss on your tax return. If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax.

Capital gain (or loss) on the sale of your principal residence equals the sale price of your home minus your adjusted basis in the property. Your adjusted basis is typically the cost of the property (i.e., what you paid for it initially) plus amounts paid for capital improvements.

If you meet all requirements, you can exclude from federal income tax up to $250,000 ($500,000 if you're married and file a joint return) of any capital gain that results from the sale of your principal residence. Anything over those limits may be subject to tax (at favorable long-term capital gains tax rates). In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale.

What if you fail to meet the two-out-of-five-year rule or you used the capital gain exclusion within the past two years with respect to a different principal residence? You may still be able to exclude part of your gain if your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances. In such a case, exclusion of the gain may be prorated.

Other considerations

It's important to note that special rules apply in a number of circumstances, including situations in which you maintain a home office for tax purposes or otherwise use your home for business or rental purposes.

STRATEGIC
Wealth Advisors

Building Confidence in Your Strategy for Retirement

In 2018, 64% of workers surveyed were either somewhat or very confident in their ability to afford retirement, up from 60% in 2017. Among retirees surveyed in 2018, 75% were confident, down from 79% in 2017.

Source: 2018 Retirement Confidence Survey, EBRI

[1] Guarantees are contingent on the claims-paying ability and financial strength of the annuity issuer. Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

Each year, the Employee Benefit Research Institute (EBRI) conducts its Retirement Confidence Survey to assess both worker and retiree confidence in financial aspects of retirement. In 2018, as in years past, retirees expressed a higher level of confidence than today's workers (perhaps because "retirement" is less of an abstract concept to those actually living it). However, worker confidence seems to be on the rise, while retiree confidence is on the decline. A deeper dive into the research reveals lessons and tips that can help you build your own retirement planning confidence.

Create a foundation of predictable sources of income

Workers surveyed expect to rely less on traditional sources of guaranteed income — a defined benefit pension plan and Social Security — than today's retirees. More than 40% of retirees say that a traditional pension plan provides them with a major source of income, and 66% say that Social Security is a primary source. Yet just one-third of today's workers expect either a pension or Social Security to play a big role.

Understand how Social Security works. Although nearly half of today's workers say they have considered how their Social Security claiming age could affect their benefit amount, the median age at which they plan to claim benefits is 65. Moreover, less than a quarter of respondents say they determined their future claiming age with benefit maximization in mind. Why does this matter? It's because the vast majority of today's workers won't be able to collect their full Social Security retirement benefit until sometime between age 66 and 67, depending on their year of birth. Claiming earlier than that results in a permanently reduced benefit amount. To help ensure you make the most of your Social Security benefits, take the time to understand the ramifications of different claiming ages and strategies before making any final decisions.

Consider creating your own "pension" income. Eight in 10 workers in the EBRI survey hope to use their defined contribution plan assets [e.g., 401(k) or 403(b)] to purchase a product that will provide a guaranteed stream of income during retirement. Depending on individual circumstances, this could be a wise move. To help provide yourself with a steady stream of income, you might consider annuitizing a portion of your retirement plan assets or purchasing an immediate annuity, a contract that promises to pay you a steady stream of income for a fixed period of time or for life in exchange for a lump-sum payment.[1]

When combined with your Social Security benefits, the payments received from an immediate annuity can help ensure that your everyday "fixed" expenses are covered. Any additional assets can then be earmarked for future growth potental and "extras," such as travel and entertainment.

Pay attention to your health — and health-care costs

Health. The EBRI survey revealed a correlation between health and retirement planning confidence. For example, 60% of today's workers who are confident in their retirement prospects also report being in good or excellent health, while only a little more than a quarter of those who are not confident report similar levels of health. Moreover, 46% of retirees who say they are confident also say they are in good health, compared with just 14% of those who are not confident.

The lesson here is pretty straightforward: Healthy habits may pay off in healthy levels of confidence. Eat plenty of fruits and vegetables, exercise, get enough sleep, and take steps to minimize stress. And don't skip important preventive checkups and lab tests. Keep in mind that even the most diligent savings strategies can be thrown off track by unexpected medical costs.

Health-care costs. The percentage of retirees who are at least somewhat confident that they will have enough money to cover medical expenses in retirement has dropped from 77% in 2017 to 70% in 2018. And four out of 10 retirees say that health-care expenses are at least somewhat higher than they expected. However, retirees who have estimated their health-care costs (39% of respondents) are more likely to say their expenses are about what they expected them to be. On the other hand, just 19% of workers have calculated how much they will need to cover their health expenses in retirement.

If you have not yet thought about how much of your retirement income may be consumed by health-care costs, now may be the time to start doing so. Having at least a general idea of what your medical expenses might be will help you more accurately project your overall retirement savings goal.

STRATEGIC
Wealth Advisors

Strategic Wealth Advisors
The SWA Team
8426 E. Shea Blvd.
Scottsdale, AZ 85260
ph: 480.998.1798
fax: 480.522.1798
info@xpertadvice.com
www.Xpertadvice.com

STRATEGIC
Wealth Advisors

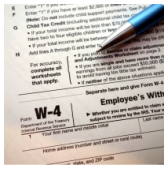
What is gross domestic product, and why is it important to investors?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies. Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings
- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



I received a large refund on my tax return this year. Should I adjust my withholding?

You must have been pleasantly surprised to find out you'd be getting a refund from the IRS — especially if it was a large sum. And while you may have considered this type of windfall a stroke of good fortune, is it really?

The IRS issued over 112 million federal income tax refunds, averaging $2,895, for tax year 2016.[1] You probably wouldn't pay someone $240 each month in order to receive $2,900 back, without interest, at the end of a year. But that's essentially what a tax refund is — a short-term loan to the government.

Because you received a large refund on your tax return this year, you may want to reevaluate your federal income tax withholding. That way you could end up taking home more of your pay and putting it to good use.

When determining the correct withholding amount, your objective is to have just enough withheld to prevent you from having to owe a large amount of money or scramble for cash at tax time next year, or from owing a penalty for having too little withheld.

It's generally a good idea to check your withholding periodically. This is particularly important when something changes in your life; for example, if you get married, divorced, or have a child; you or your spouse change jobs; or your financial situation changes significantly.

Furthermore, the implementation of the new tax law at the beginning of 2018 means your withholding could be off more than it might be in a typical year. Employers withhold taxes from paychecks based on W-4 information and IRS withholding tables. The IRS released 2018 calculation tables reflecting the new rates and rules earlier this year. Even so, the old W-4 and worksheet you previously gave to your employer reflect deductions and credits that have changed or been eliminated under the new tax law.

The IRS has revised a useful online withholding calculator that can help you determine the appropriate amount of withholding. You still need to complete and submit a new W-4 to your employer to make any adjustments. Visit irs.gov for more information.

[1] Internal Revenue Service, 2018