Petrone Associates
Financial Advisors

Q2 NEWSLETTER

Re: Quarterly Newsletter/Second Quarter 2018

Dear Clients and Colleagues:

In this newsletter, we will review the first quarter 2018 market performance and highlight some of the important changes in the new tax law.

First Quarter 2018 Market Performance[1]

	1Q 2018	Trailing One Year
S&P 500	-0.76%	13.99%
MSCI EAFE (Dev.Int'l)	-1.53%	14.80%
MSCI EM (EmergingMrkt)	1.42%	24.93%
BarclaysUSAggIndx	-1.46%	1.20%

What You Should Know About the New Tax Law

Tax Brackets

Effective January 1, 2018, the seven individual tax rate brackets are modified to be 10%, 12%, 22%, 24%, 32%, 35%, and 37%. This change expires after 2025. The top 37% rate applies to single filers with over $500,000 of taxable income and married joint filers with over $600,000 of taxable income.

Personal Exemptions & Standard Deductions

The deduction for personal exemptions is suspended. The new law increases the standard deductions for single filers to $12,000 and for married joint filers to $24,000. These changes expire after 2025.

Trivia

The answer to last quarter's trivia question is: The United States has hosted the most Winter Olympics at four: 1) Lake Placid, NY (1932); 2) Squaw Valley, CA (1960); 3) Lake Placid, NY (1980); and 4) Salt Lake City, UT (2002).

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[1] Indices are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Barclays U.S. Aggregate Bond
Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

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Itemized Deductions

- Deductions for state and local income, sales and property taxes (SALT) are capped at $10,000 in total.
- The mortgage interest deduction is reduced. The allowable limit is now $750,000 for primary and secondary homes (mortgages incurred on or before December 15, 2017 are grandfathered under the $1MM limit for primary and secondary).
- The home equity interest deduction is suspended.
- These changes expire after 2025.

Other Provisions

There are many other changes. The following is a brief summary of some of the changes:

- Tax preparation fees are no longer deductible.
- Moving expenses are no longer deductible except for members of the Armed Forces.
- The ability to undo ("recharacterize") a Roth IRA conversion has been eliminated, effective in 2018. Note that the new law applies to conversions after 2017. A 2017 Roth-IRA converter still has until October 15, 2018 to undo that conversion (assuming the 2017 tax return is filed on time).
- The shared responsibility payment for failing to maintain minimum essential health care coverage is effectively eliminated starting January 1, 2019.
- Up to $10,000 per year in 529 savings plan assets can be used for grades K-12.

Pass-Through Qualified Business Income Deduction – Specified Service Businesses

While this new deduction is quite complex, here are some simplified rules to help understand how it works. If a pass-through business owner has taxable income below the threshold ($315,000 for married filing joint and $157,500 for single filers), he/she can generally take a 20% deduction of his/her pass-through income. For example, if Dave files jointly with his spouse and has $100,000 of income from his sole proprietorship and their total combined taxable income is $150,000, he can take a $20,000 deduction (20% x $100,000), so that total taxable income would be $130,000. There are phaseouts of the deduction when taxable income is between $315,000 and $415,000 for married filing joint taxpayers and between $157,500 and $207,500 for single taxpayers. Establishing a qualified retirement plan to reduce taxable income below the threshold may result in a double benefit: a tax deductible retirement plan contribution and a 20% deduction of pass-through income.

Financial Planning

Want to know where you stand retirement wise? How much do you need to save to retire comfortably? When can you retire? How to invest your retirement assets*? Contact us to discuss our financial planning services*.

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