October 2018

Petrone Associates
Financial Advisors

Q4 NEWSLETTER

Dear Clients and Colleagues:

In this newsletter, we will review the Third Quarter 2018 market performance and discuss some end of the year tax strategies.

Third Quarter 2018 Market Performance[1]

	3Q 2018	YTD
S&P 500	7.71%	10.56%
MSCI EAFE (Dev.Int'l)	1.35%	-1.43%
MSCI EM (EmergingMrkt)	-1.09%	-7.68%
BarclaysUSAggIndx	.02%	-1.60%

End-of-the-Year Tax Strategies

A. Reduce Taxable Income to Qualify for 20% Pass-Through Deduction

The new tax law allows owners of sole proprietorships, S-Corps, LLC's and partnerships to deduct 20% of taxable income. However, for most service businesses, the deduction is phased out between $315,000-$415,000 of taxable income (for married filing jointly taxpayers) and between $157,500-$207,500 (for single taxpayers). For example, if John, a sole proprietor accountant, is married and has $415,000 of taxable income, he is at the income threshold and is not entitled to the 20% deduction. However, John may be able to establish a qualified retirement plan and make a $100,000 contribution, reducing his taxable income to $315,000 and thus qualify for the full 20% deduction – a $63,000 deduction. Alternatively, John

Trivia Answer

Germany's Miroslav Klose holds the record for the most World Cup soccer goals with 16, followed by Pele (12) and Jurgan Klinsman (11).

[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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could make a $50,000 charitable contribution and a $50,000 retirement plan contribution and likewise reduce his taxable income to $315,000 and qualify for the 20% deduction ($63,000). In that case, John would have shielded $100,000 of income from tax, made a sizeable retirement contribution, benefitted his favorite charity, ***and*** avoided tax on an additional $63,000 of income

B. Tax Loss Harvesting

Tax loss harvesting can be a relatively simple way to reduce taxes on taxable investment accounts. Assume that an investor has capital gains liability due to the sale of an appreciated investment. In a diversified portfolio, there are typically securities that have appreciated in value and other securities that have lost value. To offset the capital gain on the sale of the appreciated security, an investor can sell all or part of another investment that has a loss, and the loss can be applied against the gain to reduce or eliminate the capital gain tax. In order to maintain the investor's asset allocation, a correlated substitute asset can be purchased to replace the security that was sold to generate the offsetting loss. If the same or substantially identical security is purchased within thirty days of the sale, the loss is essentially deferred until the sale of the replacement security. Additionally, any allowable loss in excess of capital gains may be applied to offset up to $3,000 of ordinary income, adding to the tax benefit.

C. Charitable IRA Rollover

If you are 70 and-a-half or older, you may transfer up to $100,000 directly from an IRA account to a charity and pay no income tax on the distribution. Making a non-taxable transfer usually puts the taxpayer in a much better position than taking the distribution and including it in taxable income, then gifting the funds and taking an itemized deduction. The direct transfer avoids the IRA distribution being included in gross income in the first place, thus the taxpayer's modified adjusted gross income is not increased, which may reduce Medicare premiums, decrease the tax on social security benefits, and allows the taxpayer to take the standard deduction in addition to the tax free charitable distribution. The qualified charitable distribution of up to $100,000 is also not limited by the ordinary 60% of AGI limit on charitable deductions.