A Perspective on the Tax Cuts & Jobs Act of 2017

...Considerations for Financial Planning & the Economy

Presented By:

VITUCCI INTEGRATED PLANNING

WEALTH MANAGEMENT • TAX PLANNING • INVESTMENT STRATEGIES

2890 N. Main St., Suite 201, Walnut Creek, CA 94597 | 925.370.3750 | www.vitucciintegratedplanning.com

Jason Vitucci is a Certified Financial Planner™ professional offering Securities through First Allied Securities, Inc., a registered broker-dealer, Member FINRA/SIPC. Advisory services offered through First Allied Advisory Services, Inc., a Registered Investment Advisor. CA Insurance Lic.: 0F59894

Before leaving for Christmas break, President Trump officially signed the Tax Cuts & Jobs Act of 2017 into law. The last time this country reformed its tax code, shoulder pads were in fashion, Mike Tyson became the youngest Heavyweight Champion in history, the Oprah Winfrey show had just debuted on television, and the movie "Wall Street" had not yet been released. Such sweeping reform obviously included many details and covered many issues. In the following commentary, we will provide a high level review of some of the key features of the tax law & how they may impact the economy & financial planning.

After months of discussion and review, the Tax Cuts and Jobs Act was signed into law by the president on December 22, 2017. In general, its provisions, which encompass more than 500 pages, became effective January 1, 2018. A note should be made that some provisions are permanent, while others will expire.

The Details for Individuals

Individuals may start to see the impacts to their paychecks as early as this February, but will not likely feel the full scope of the legislation's effects until they file their 2018 tax returns in 2019. There will continue to be seven tax brackets; however, the thresholds will be higher and the graduated tax rates will be lower. The dreaded Alternative Minimum Tax (AMT) for individuals is being curtailed while the standard deduction was doubled and the amount one can deduct for mortgage interest and state taxes was reduced. The estate tax exemption and child tax credit were also doubled. The individual mandate for health care was repealed, so Americans will no longer be forced to buy health insurance or suffer a tax penalty for not having it.

Tax Brackets for Single Filers

New Rate	New Income Bracket	|	Old Rate	Old Income Bracket
10%	Up to $9,525	|	10%	Up to $9,525
12%	$9,525-$38,700	|	15%	$9,525-$38,700
22%	$38,700-$82,500	|	25%	$38,700-$93,700
24%	$82,500 – $157,500	|	28%	$93,700-$195,450
32%	$157,500-$200,000	|	33%	$195,450-$424,950
35%	$200,000-$500,000	|	35%	$424,950-$426,700
37%	$500,000+	|	39.6%	$426,700+

Tax Brackets for Married Filing Jointly

New Rate	New Income Bracket	|	Old Rate	Old Income Bracket
10%	Up to $19,050	|	10%	Up to $19,050
12%	$19,050-$77,400	|	15%	$19,050-$77,400
22%	$77,400-$165,000	|	25%	$77,400-$156,150
24%	$165,000-$315,000	|	28%	$156,150-$237,950
32%	$315,000-$400,000	|	33%	$237,950-$424,950
35%	$400,000-$600,000	|	35%	$424,950-$480,050
37%	$600,000+	|	39.6%	$480,050+

Other Notes for Individuals

- The current standard deduction of $12,700 for joint filers ($6,350 single filers and $9,350 head of household filers) will increase to $24,000 for joint filers or a surviving spouse ($12,000 for single filers and $18,000 for heads of household). These will ~~also~~ expire December 31, 2025.

- Personal exemptions of individuals and dependents have been suspended through December 31, 2025.

- The Alternative Minimum Tax (AMT) will remain through December 31, 2025 with increased exemptions of $109,400 (joint) & $70,300 (indiv.)

- Miscellaneous itemized deductions that were subject to the 2 percent limit under previous law are suspended through December 31, 2025.

- Mortgage interest deductions for a primary residence with respect to new acquisition indebtedness of a couple will be capped at $750,000 through December 31, 2025. However, mortgage interest deductions on home equity indebtedness will be suspended through December 31, 2025.

- Itemized deductions for state and local income taxes, as well as personal and real property taxes, are capped at $10,000 through December 31, 2025. However, such deductions for carrying on a business would not be capped.

- Charitable contributions of cash to public charities will have the adjusted gross income limitation for deductibility raised from 50 percent to 60 percent through December 31, 2025.

- Medical expense deductions are preserved with a requirement that such unreimbursed expenses exceed 7.5 percent of adjusted gross income. This is operative for 2017 and 2018 only.

- Alimony payment deductions for obligations arising after January 1, 2019 will no longer be deductible by the payee and no longer be deemed income by the recipient.

- Moving expense deductions will be suspended through December 31, 2025 for all taxpayers except active duty members of the Armed Forces.

- The Child Tax Credit, which is presently $1,000, will be increased to $2,000 and may be claimed for non-child dependents as well. In the case of dependents other than qualifying children, there is a $500 nonrefundable limit. There also is a $1,400 limit in the case of a refundable tax credit. The Child Tax Credit is now available to a greater number of individuals, since it only begins to be phased out when the income exceeds $400,000 for joint filers and $200,000 for others. All these will expire on December 31, 2025 and the credit will revert back to its current form at that time.

- Discharge of certain student loan debt on account of death or total and permanent disability of the student will be excluded from taxable income.

- The present relief for excluding taxable gain, up to $500,000 per couple or $250,000 per individual on the sale of a principal residence, will continue. It requires the use of the residence as the principal residence for a least two of five years.

- Section 1031, like-kind exchanges avoiding taxable events, will now only be permitted for real estate transactions and not such things as art investments. This does not apply

to property acquired before December 31, 2017.

- The Net Investment Income tax (3.8 percent) and additional Medicare contribution tax (0.9 percent) for those with joint household income of $250,000 or individuals with income over $200,000, is being retained as under current law.

The Details for Businesses

For companies, the corporate tax rate is being cut from 35% to 21%, which brings the U.S. tax rate roughly in line with the rest of the world. The AMT tax for corporations was eliminated, and to incent corporations to repatriate cash, there is a one-time time break of 15.5% rather than 35%. Rather than using complicated schedules to depreciate over time, corporations can now expense 100% of the cost of eligible property through 2022. Investors may now deduct 20% of pass-through income, with the remainder taxed at the marginal tax rate.

Other Notes for Businesses

- A new code, Section 199A, was enacted. Under it, pass-through tax treatment of partnerships, S Corporations and sole proprietorships now have a new 20 percent deduction for the non-wage domestic, qualified business income until December 31, 2025. This is now considered business income rather than investment income (e.g., dividends investment interest short- and long-term capital gains.)

- Section 179 expensing limits have been adjusted. Section 179 allows the immediate expensing of qualified property in lieu of using a depreciation method. There will be an annual limit of a $1 million deduction where the total acquired is more than $2.5 million in a year.

- Bonus depreciation, currently at 50 percent, has been increased to 100 percent for property placed in service after September 27, 2017 and before January 1, 2023. It now also includes used property as well.

- Net operating loss deductions will be limited to 80 percent in tax years beginning after December 31, 2017.

- Net operating loss carrybacks have been eliminated, but unused net operating loss can be carried forward indefinitely. Farming losses will be permitted a two-year carryback.

Considerations for Financial Planning

The passing of this new legislation, in combination with adjustments already being made to certain savings thresholds provides us with several items to touch on from a financial planning perspective. These include changes to gifting limits, estate tax thresholds, access to educational savings vehicles, & considerations around Roth IRA conversion planning (among other items). Notwithstanding this new legislation, certain adjustments are being made for 2018 on various aspects that directly affect financial planning.

- The annual gift exclusion is increasing from $14,000 to $15,000 for gifts made per recipient.

- The adjusted gross income limits in 2018 permit a full Roth contribution for joint filers with adjusted gross income of less than $189,000 with a full phase out at $199,000. For single filers, these will be $120,000 and $135,000 respectively.

- Similarly, the ability to make a deductible traditional IRA contribution has the threshold of $121,000 ($73,000 for single filers) where one is an eligible participant in a qualified plan.

- Roth recharacterizations arising from conversions will not be permitted after January 1, 2018. This means those who converted to a Roth during 2017 no longer have the ability to "undo" the conversion.

- The elective contribution limit for a 401(k) has been raised to $18,500 from the current $18,000. For those over age 50, the catch-up contribution remains at $6,000.

- For a Simplified Employee Pension (SEP), the maximum effective contribution limit is the lesser of 25 percent of compensation or $55,000. The contribution limit to a Savings Incentive Plan for Employees (SIMPLE) is $12,500 plus $3,000 for those age 50.

- The wage base for collection of Social Security (6.2 percent) has a maximum wage base of $128,400 (up from $127,200). For those self-employed, the contribution has doubled as part of the SE tax.

- Section 529 plans may now distribute up to $10,000 in expenses for tuition incurred at a public, private, or religious elementary or secondary school. This does not expire in 2025.

- Estate and gift tax unified credit basic exclusions from the current $5.49 million per individual will be increased starting in 2018 to $11.2 million per individual. This will be adjusted annually for inflation and is effective for decedents dying and gifts made after 2017 and before 2026. The generation skipping tax exemption follows the same rules as well.

Economic & Investment Market Impact

Looking to financial markets, likely early beneficiaries include companies doing the majority of their business in the United States and smaller companies, which tend to pay higher tax rates than larger corporations. Companies in sectors such as consumer staples, consumer discretionary, telecom and financials generally have higher tax rates and thus stand to benefit more than companies in technology, energy and REITs which generally have lower tax rates. Sectors that are domestically focused and consumer-driven—industries such as telecom, media and retail – may also benefit from consumers having more money to spend. New provisions for the treatment of capital expenditures should benefit manufacturing companies while REITs may profit from the changes to the tax treatment of pass-through income as well.

On the fixed income side, the municipal bond and high yield sectors will likely be the most affected, but the net impact is more difficult to project. As the rate for the top tax bracket is reduced, the benefit of owning munis is also ostensibly reduced; however, the reduction of state and local tax deductibility should support demand for municipal bonds. This will not impact all municipalities equally, though, and there will likely continue to be higher demand for bonds in states with high taxes and lower demand in states with low taxes.

With respect to high yield bonds, interest deductibility is being limited to 30% of Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). For a majority of companies in the space, this may be offset by the deductibility of capital expenditures, but highly indebted high yield companies may see their bond prices pushed lower.

In summary, there will be winners and losers in the tax plan. It remains to be seen how much is already priced into the market and how the tax plan will ultimately impact companies differently, even within the same sectors. Also, winners and losers may change over time as some of the taxes are phased out. In the short run, the plan will likely spur economic growth as consumers have more money to spend (consumption makes up roughly 70% of GDP), potentially causing inflation and forcing the Federal Reserve to raise interest rates more aggressively. However, increased wage and interest expenses may erode gains from reduced taxes. Thus, predicting how all this plays out is difficult. Additionally, economists estimate that the package will add around $1 - $1.5 trillion to the federal deficit over the next decade, depending on how much growth is generated from the tax package, and this will affect the economy and markets over the long run.

In Conclusion

Sweeping tax reform is intended to have broad consequences. It remains to be seen how this plan will impact individual tax filers. On one hand, some have cited the reduced amount of deductions available—while the counter to that is the significant increase in the standard deduction available. This may mean that more filers use the standard deduction (thus simplifying tax preparation—a key aim of the act). The act certainly creates potential opportunity for businesses, and could spur the economy because of that.

From an investment market standpoint, I would suggest that some level of tax reform has been “baked in” to current valuations. The good news on the reform actually coming through is that we can now see how companies can justify or “grow into” current stock prices.

As always we will continue to aim to keep you informed about the ongoing impact of this new tax regime. Please contact us with any questions or concerns.

Investing involves risks including the potential loss of principal. No strategy can assure success or protects against loss. Past performance is no guarantee of future results. Research from Cetera Investment Management & Cetera Advanced Planning Group contributed to this commentary. Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative. You should consult your tax or legal advisor before acting upon any of the included information in this report. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results. The information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Tax services are not endorsed by nor affiliated with First Allied Securities. First Allied Securities & Vitucci Integrated Planning are separate & unaffiliated companies