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I am finishing up my Spring newsletter on the first day of summer. Spring has been a very busy time for me the past 7 years. As many of you know, I have coached boys and girls lacrosse every spring. I have always found it to be tremendously rewarding and fun to coach kids and see them improve. This season was somewhat bittersweet. My son just finished his 8th grade season, his last in youth lacrosse. He is now on to high school. I have been the head coach of his team for 7 straight years and coached 5 seasons in another town before I had kids. After 12 years of coaching boys lacrosse, this was my last. It will be tough for me next spring, even though I will have a lot more free time! Luckily, I have one more season to coach my daughter's team as she enters into 8th grade next year. It will be great to focus on coaching 1 team rather than 2 or 3. Many of you who have coached kids in the past have told me "you will miss it when it is over." I have no doubt that is true.

### Spring 2018

Quiz: Can You Answer These Social Security Benefit Questions?

The College Landscape After Tax Reform

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## Did You Know...?

### 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.



*Did you know that 94% of all workers are covered under Social Security?*

*Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017*

## Quiz: Can You Answer These Social Security Benefit Questions?

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

### Questions

**1. Can you receive retirement and disability benefits from Social Security at the same time?**

- a. Yes
- b. No

**2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?**

- a. Reduced by 30%
- b. Reduced by 40%
- c. Reduced by 50%
- d. Your benefit will not be reduced

**3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?**

- a. 6%
- b. 7%
- c. 8%

**4. Monthly Social Security benefits are required to be paid by which of the following methods?**

- a. Paper check only
- b. Paper check, direct deposit, or debit card
- c. Direct deposit or debit card

**5. Are Social Security benefits subject to income tax withholding?**

- a. Yes
- b. No

**6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?**

- a. Less than 12 months since you've been receiving benefits
- b. Less than 18 months since you've been receiving benefits
- c. Less than 24 months since you've been receiving benefits

### Answers

**1. b.** No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

**2. d.** Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

**3. c.** Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

**4. c.** Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

**5. b.** No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

**6. a.** If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.

# The College Landscape After Tax Reform



**Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans and ABLÉ plans before investing. Specific information can be found in each plan's official statement. Participating in a 529 plan or ABLÉ plan may involve investment risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investments may not perform well enough to cover college costs as anticipated. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan, and each plan has its own rules and restrictions, which can change at any time. Before investing in a 529 plan or an ABLÉ plan, consider whether your state offers residents favorable state tax benefits, and whether those benefits are contingent on joining the in-state plan. Other state benefits for 529 plans may include financial aid, scholarship funds, and protection from creditors.**

College students and their parents dodged a major bullet with the Tax Cuts and Jobs Act of 2017. Initial drafts of the bill included the elimination of Coverdell Education Savings Accounts, the Lifetime Learning Credit, and the student loan interest deduction, along with the taxation of tuition waivers, which are used primarily by graduate students and college employees. In the end, none of these provisions made it into the final legislation. But a few other college-related items did. These changes take effect in 2018.

## 529 plans expanded

The new law expands the definition of 529 plan "qualified education expenses" to include K-12 tuition. Starting in 2018, annual withdrawals of up to \$10,000 per student can be made from a 529 college savings plan for tuition expenses related to enrollment at a K-12 public, private, or religious school (excluding home schooling). Such withdrawals are now tax-free at the federal level.

At the state level, some states automatically update their state 529 legislation to align with federal 529 legislation, but other states will need to take legislative action to include K-12 tuition as a qualified education expense. In addition, 529 plan institutional managers will likely further refine their rules to accommodate the K-12 expansion and communicate these rules to existing account owners. Parents who are interested in making a K-12 contribution or withdrawal should understand their plan's rules and their state's tax rules.

The expansion of 529 plans may impact Coverdell Education Savings Accounts (ESAs). Coverdell ESAs let families save up to \$2,000 per year for a child's K-12 or college expenses. Up until now, they were the only option for tax-advantaged K-12 savings. But now the use of Coverdell ESAs may decline as parents are likely to prefer the much higher lifetime contribution limits of 529 plans — generally \$350,000 and up — over the \$2,000 annual limit for Coverdell accounts. In addition, Coverdell ESA contributions can only be made for children under age 18.

Coverdell ESAs do have one important advantage over 529 plans, though: investment flexibility. Coverdell owners have a wide variety of options in terms of what investments they hold in their accounts, and may generally change investments as often as they wish. By contrast, 529 account owners can invest only in the investment portfolios offered by the plan, and they can change their existing plan investments only twice per year.

In addition, the new tax law allows 529 account owners to roll over (transfer) funds from a 529 account to an ABLÉ account without federal tax consequences if certain requirements are met. An ABLÉ account is a tax-advantaged account that can be used to save for disability-related expenses for individuals who become blind or disabled before age 26. Like 529 plans, ABLÉ plans allow funds to accumulate tax deferred, and withdrawals are tax-free when used for a qualified expense.

## New calculation for kiddie tax

The tax reform law changes the way the "kiddie tax" is calculated. Previously, a child's unearned income over a certain amount was taxed at the parents' rate. Under the new law, a child's unearned income over a certain amount (\$2,100 in 2018) will be taxed using the compressed trust and estate income tax brackets. This change may make the use of UTMA/UGMA custodial accounts less attractive as a college savings vehicle due to the reduced opportunity for tax savings.

## New tax on large college endowments

The tax law creates a new 1.4% tax on the net investment income of large college endowments. Specifically, the tax applies to institutions with at least 500 tuition-paying students and endowment assets of \$500,000 or more per student. Approximately 30 colleges are expected to be swept up in this net in 2018, including top-ranked larger universities and smaller elite liberal arts colleges. Some affected colleges have publicly stated that the tax will limit their ability to fund certain programs, including financial aid programs.

## Loss of personal exemptions

Starting in 2018, the tax law eliminates personal exemptions, which were \$4,050 in 2017 for each individual claimed on a tax return. So on their 2018 tax returns (which will be completed in 2019), parents of college students will lose an exemption for each college student they claim. However, this loss may be at least partially offset by: (1) a larger standard deduction in 2018 of \$24,000 for joint filers (up from \$12,700 in 2017); \$12,000 for single filers (up from \$6,350 in 2017); and \$18,000 for heads of household (up from \$9,350 in 2017); and (2) a new family tax credit of \$500 in 2018 for each dependent who is not a qualifying child (i.e., under age 17), which would include a dependent college student. The income thresholds to qualify for this credit (and the child tax credit) are significantly higher: up to \$400,000 adjusted gross income for joint filers and up to \$200,000 for all other filers.

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## 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.<sup>1</sup> 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](https://www.irs.gov) for more information.

<sup>1</sup> Internal Revenue Service, 2018



## What is the difference between a tax deduction and a tax credit?

Tax deductions and credits are terms often used together when talking about taxes.

While you probably know that they can lower your tax liability, you might wonder about the difference between the two.

A tax deduction reduces your taxable income, so when you calculate your tax liability, you're doing so against a lower amount. Essentially, your tax obligation is reduced by an amount equal to your deductions multiplied by your marginal tax rate. For example, if you're in the 22% tax bracket and have \$1,000 in tax deductions, your tax liability will be reduced by \$220 ( $\$1,000 \times 0.22 = \$220$ ). The reduction would be even greater if you are in a higher tax bracket.

A tax credit, on the other hand, is a dollar-for-dollar reduction of your tax liability. Generally, after you've calculated your federal taxable income and determined how much tax you owe, you subtract the amount of any tax credit for which you are eligible from your tax obligation. For example, a \$500 tax credit will reduce your tax liability by \$500, regardless of your tax bracket.

The Tax Cuts and Jobs Act, signed into law late last year, made significant changes to the individual tax landscape, including changes to several tax deductions and credits.

The legislation roughly doubled existing standard deduction amounts and repealed the deduction for personal exemptions. The higher standard deduction amounts will generally mean that fewer taxpayers will itemize deductions going forward.

The law also made changes to a number of other deductions, such as those for state and local property taxes, home mortgage interest, medical expenses, and charitable contributions.

As for tax credits, the law doubled the child tax credit from \$1,000 to \$2,000 for each qualifying child under the age of 17. In addition, it created a new \$500 nonrefundable credit available for qualifying dependents who are not qualifying children under age 17. The tax law provisions expire after 2025.

For more information on the various tax deductions and credits that are available to you, visit [irs.gov](https://www.irs.gov).