Perspectives

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5 Quick Highlights of the New Tax Law

By Shelley Schexnayder, Communications, Senior Advisor for 1st Global

As 2018 winds to an end, it's time to both look back on the prior year and look forward into the new year. That also means it's almost tax time, and this year may look a little different. The Tax Cuts and Jobs Act of 2017 brought sweeping changes to the tax landscape, leaving many to wonder just how it affects them.

While the changes can affect each person or business differently, here are five things everyone needs to know:

1. **Standard deductions? Make it a double.** The standard deduction amount has nearly doubled for 2018. Meanwhile, many personal and dependent deductions have been eliminated. Many are expecting the number of people who take the standard deduction, versus individually itemizing deductions, to increase significantly.[1]

2. **To have and to hold from this day forward: lower tax brackets.** As you can see in the table below, the tax brackets have changed — in most cases, for the better. Also, the "marriage penalty" of jumping to a higher tax bracket by combining incomes has been eliminated, except for couples earning more than $300,000.[2]

Tax Rate	Single	Married Filing Jointly or Surviving Spouses	Married Filing Separately	Head of Household
10%	$0 – $9,525	$0 – $19,050	$0 – $9,525	$0 – $13,600
12%	$9,525 – $38,700	$19,050 – $77,400	$9,525 – $38,700	$13,600 – $51,800
22%	$38,700 – $82,500	$77,400 – $165,000	$38,700 – $82,500	$51,800 – $82,500
24%	$82,500 – $157,500	$165,000 – $315,000	$82,500 – $157,500	$82,500 – $157,500
32%	$157,500 – $200,000	$315,000 – $400,000	$157,500 – $200,000	$157,500 – $200,000
35%	$200,000 – $500,000	$400,000 – $600,000	$200,000 – $300,000	$200,000 – $500,000
37%	$500,000+	$600,000+	$300,000+	$500,000+

3. **Nest eggs have become harder to crack.** For starters, you'll no longer be able to reverse a Roth conversion. Contribution limits have been raised for certain retirement plans, such as 401(k)s and 403(b)s. Income phase-out ranges for IRA contributors have also changed. Social Security benefits and withholding thresholds have both increased. With all of the tax changes that have come to retirement savings, it's important to consult your CPA or trusted advisor for advice.[3]

4. **The new tax law may rub SALT into the wound.** The state and local tax (SALT) deduction for income and property taxes is now capped at $10,000, which could have a negative impact on taxpayers in states with high state and local taxes.[4]

5. **AMT victims may finally get a reprieve.** Historically, families with higher incomes had to calculate their taxes under the standard tax system and under the alternative minimum tax (AMT) system and pay whichever was higher. However, because the AMT didn't keep up with inflation, it started to affect an increasing number of taxpayers. The new tax law adjusted the amounts for inflation, which means many that were previously affected by AMT will not be anymore.[5]

These five items are just a few of the many changes to America's tax code. However, **the most important thing to know about the new tax law is who to turn to for advice**. Your trusted advisor is in a strategic position to assist you with how these changes affect your comprehensive financial plan — from taxes to investments and everything in between.

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[1] *AARP. https://www.aarp.org/money/taxes/info-2018/new-standard-deduction-fd.html*
[2] *Wisebread. https://www.wisebread.com/12-things-you-should-know-about-the-new-tax-law*
[3] *Time. http://time.com/money/4990121/401k-ira-contribution-limits-2018/*
[4] *Smart Asset. https://smartasset.com/taxes/trumps-plan-to-eliminate-the-state-and-local-tax-deduction-explained*
[5] *The Motley Fool. https://www.fool.com/taxes/2017/12/29/your-complete-guide-to-the-2018-tax-changes.aspx*

'Tis the Season for Donor-advised Funds

By Ken Nopar, American Endowment Fund

With the peak charitable giving season just around the corner, it is again time for many donors to begin to plan which charities they wish to support, how much they want to donate, which assets to donate and whether they should give directly or through a donor-advised fund (DAF) or other charitable vehicle.

Though the percentage of overall charitable giving has remained consistent, there has been a huge increase in the number of donors at many levels of wealth who have established DAFs. DAFs have often been described as charitable checking accounts in which donors make irrevocable contributions to a DAF sponsor and then send out donations from their DAF account to their favorite charities. There are now 300,000 DAFs throughout the country, which is twice the number available just eight years ago.

There are a number of reasons why DAFs have grown in popularity:

1. They are simple to establish, and there is no charge to do so.
2. Because DAF sponsors are charities themselves, donors receive the maximum tax deduction allowed by the IRS, greater in many instances than donations to private foundations.
3. Once the DAF account is established, donors can recommend grants to numerous charities online, similar to bill paying from a bank account.
4. Donors receive one tax receipt for their donations to the DAF sponsor, instead of numerous tax receipts they would have received from different charities they supported in the past.
5. Donors' financial advisors are often able to establish and manage the investments in their DAF accounts, and these investments grow tax-free.
6. Besides cash, donors can contribute publicly-traded stock and even more complex assets that many charities cannot accept, such as privately-held stock, real estate and limited partnership or limited liability company interests.

There are now
300,000
donor-advised funds

Which is **2x**
the number eight years ago

Many different types of donors have established DAF accounts in recent years. Some are people who have sold or are about to sell a business or other asset and who wish to minimize capital gains taxes. Many who are approaching retirement want to donate to a DAF during their high income-earning years so they can receive a large tax deduction and then send donations from their account during their retirement when their income is less. Others create a DAF to get their family involved in charitable giving, while still others want their giving to continue for years after their death.

Because of the recent tax changes and the doubling of the standard deduction, many tax and financial advisors recommend that their clients "bunch" their charitable donations this year to charities or to their DAF accounts. Essentially, this means that donors will donate more this year and receive a significant deduction, and in future years, they will most likely donate less and take the now-higher standard deduction.

Regardless of how donors choose to give, it is advisable that they talk with their financial advisors to discuss charitable planning this year and in the future. Non-profit organizations need funding throughout the year, and November and December are so busy for most that if you're considering donating, speak to your advisor as soon as possible. This discussion could be very beneficial to you and the causes and charities in which you are most interested and involved.