Norman J. Politziner's
Financial Planning

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New Ways To Influence The Next Generation

The Tax Cuts And Jobs Act of 2018 (TCJA) gives you more good reasons to help your children, grandchildren, great nieces and nephews. Any amount you give to a 529 account that's used to pay for qualified expenses for college as well as private or religious schooling before college is deductible. With tax reform eliminating all or a large chunk of state income-tax deductions for many individuals in 2018, giving to a 529 lightens your state income-tax load while perhaps changing a life of a family member or friend and influencing their values.

If a child in your family is affected by autism, ADHD, opioids, or any other modern maladies, you have new ways to benefit from the privilege of helping children with special needs.

The average annual rate of college inflation was double the overall inflation rate for the past decade, according to College Board data, and 529 assets hit $279 billion in 2016, according to College Savings Plan Network — up almost 160% from 10 years earlier, as parents tried to keep pace with rising college costs.

Enacted two decades ago, Section 529 plans have become popular because contributions grow tax-free and withdrawals for tuition, books, room and board are also tax-free. No limits are imposed on contributions, but your 529 may not exceed the estimated cost of a beneficiary's education expenses.

Many states let you deduct 529 contributions from state income tax, and some also allow deductions made to out-of-state 529 plans. Almost all states offer 529s and permit out-of-state residents to invest. Here's how the new tax overhaul encourages 529 savings:

Savings on state income tax lowers federal liability. To the horror of high-tax states, federal deductions for state income, property and sales tax were limited for 2018, and annually through 2026, with a $10,000 limitation. Still, 41 states have an income tax and New Hampshire and Tennessee tax dividends and other investment income, and about three dozen states allow deductions for 529 contributions. Your gifts to 529s lower your income subject to federal as well as state income tax, easing the pain of losing the federal deduction for state

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A Day At The Park

Every kid has a dream... to be a fireman, policeman... mine: to play professional baseball. Of course, looking back at my high school years, a 4'11" senior had little chance of playing on any team. Thank goodness for growth spurts.

Last month, I got close to my dream. At a charity auction, I bid and won an afternoon and evening at The Somerset Patriots baseball game... the owner's suite, throwing out the first pitch and being on the field for batting practice.

I thought that this would be a great family event. What I didn't realize was how memorable the experience would be.

We showed up as scheduled, at 4:00pm, in time for infield practice. We were ushered onto the field while the team took batting practice and then Brett Jodie, former Yankee pitcher and current Patriots manager, came over to talk to us. What a nice guy! He was friendly and genuinely pleased that my grandkids were there. After his players batted he startled Ethan, 11 years old, asking: "You want to take batting practice?" We were all surprised. Ethan did a great job in the cage. Then Brett asked my granddaughter, Meghan, the same question. Meg, just eight, said yes, "But I don't know how." Brett said, "Don't worry, I'll pitch to you." He did, and she hit.

Ethan threw out the first pitch.

As for Sparky Lyle, that's for another column.

Norm

The Certified Financial Transitionist (CeFT) designation is awarded to those who have completed a 3-part training process composed of a 1-day workshop, core training program (minimum of 24 hours of coursework over a 12 month period) and a 1.5 day exam process including a 2 hour proctored exam, role playing, case essays and more. One must be a CFP and have 5 years of direct client relationships. Statistics stated in the Seeking Wisdom article above are according to a former leading fund manager at a prominent mutual fund company in 2017.

Qualifying For The New Business Owner Tax Break

Under the new tax law, business owners are entitled to deduct 20% of “qualified business income.” The test for qualifying a tax break on 20% of business income is defined in the Tax Cuts and Jobs Act (TCJA) and summarized here along with a simple illustration.

If you formed your BUSINESS as a sole proprietorship, S corporation, partnership, LLC or similar pass-through entity, you are entitled to the deduction. C corporations don’t qualify for the 20% deduction. Only businesses generating income not taxed at the company level, but directly to the owner.

Qualified business income is the business’ day-to-day, non-investment income. It’s revenue the business generates minus expenses.

QBI doesn’t include interest, dividend income or capital gains on a property sale. Nor does QBI include salary or wages paid either as W-2 wages from an S corporation or guaranteed payments from a partnership.

However, the 20% deduction is limited to the lesser of:

❐ 20% of qualified business income, or

❐ 50% of the total W-2 wages paid by the business.

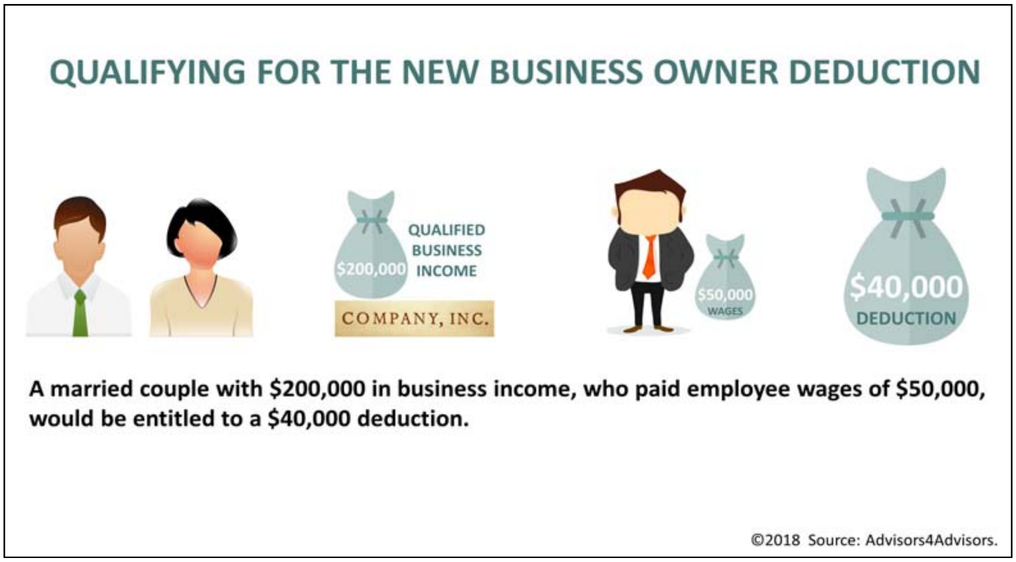
A separate limit based on the unadjusted basis of certain business assets could also apply, a rare situation.

More important: The 50% W-2 wage cap kicks in when a couple filing jointly has a total taxable income of more than $315,000 ($157,500 for singles).

Here’s an illustration of a couple who owns a business with $200,000 in qualified business income, with no real assets, such as vehicles or real estate, and with one employee who was paid $50,000 in 2018. The couple would be entitled to QBI deduction of $40,000. That’s 20% of $200,000.

Because the couple’s taxable income is less than $315,000, the wage limitation — 50% of wages paid to their employee — is equal to $25,000 and would not apply.

Some business owners with more than $315,000 in QBI may want to consider reducing their W-2 wages or guaranteed payments to qualify for the deduction, but this requires careful planning and personal consulting beyond this simple illustration. The rules are new and technical, and before changing how your business pays you to qualify for the 20% QBI deduction, it’s prudent to contact us and plan properly. ❐



A married couple with $200,000 in business income, who paid employee wages of $50,000, would be entitled to a $40,000 deduction.

Your Alma Mater Or Your Family?

The new tax law doubles what you can leave loved ones’ tax free when you die and that’s really bad for your alma mater. Tax breaks for donations to your alma mater may no longer make the grade with you. Here’s why:

Estate Tax Exemption Rises. The Tax Cuts And Jobs Act (TCJA) doubles a married couple’s estate’s tax-exemption to $22 million. Alums now want to maximize their exemptions by leaving $22 million to their children, nieces, nephews and other loved ones before even thinking about a donation to favorite old schools.

Larger Standard Deduction. The TCJA upped the standard deduction from $13,000 to $24,000 for married couples and most Americans no longer will itemize deductions. But that also means you no longer may deduct college donations. Younger alumni will never get into the habit of contributing to their alma mater, disrupting the finance of U.S. educational institutions.

Athletic Deduction Nixed. Before the TCJA, many colleges targeted contributions from alumni who might qualify for good seats at games. The old law allowed donors to deduct 80% of such gifts. Now, the deduction is zero.

Taxing Endowments. Under the new tax code, schools with endowments of $500,000 per student or more and 500 students or more face a 1.4% levy on income. Only a small number of schools are subject to this new tax, but it is a consideration in making college donations.

The Plus Side. The TCJA is not entirely bad for all education-minded donors. Some plusses:

❐ If you itemize, you may now deduct up to 60% of your adjusted gross income on donations to qualified charities, including your old school. That’s up from 50%.

❐ You can “bunch” donations you pledge to give over several years. The

Seven Security Steps After Major Data Breach

On September 7, 2017, one of the "big three" credit reporting agencies in the country dropped a bombshell. Equifax had been hacked, and almost 150 million Americans may have had their credit histories exposed. It was one of the largest cyber-breaches in history, and while it's difficult to get a handle on exact numbers, suffice to say that it's quite likely your information was compromised.

And it isn't just U.S. citizens who are at risk. The hackers also grabbed confidential data on residents of Canada and the United Kingdom. The other two major credit reporting agencies—Experian and TransUnion—weren't affected.

It took some time for Equifax to get the word out. According to media sources, unauthorized access to data occurred during a three-month stretch between May and July of 2017. The breach was reportedly discovered on July 29, 2017.

What were the hackers after? Again, details are spotty and Equifax has promised to follow up with additional information, but at the very least it's likely that names, addresses, dates of birth, Social Security numbers and in some cases, drivers' license numbers were exposed.

Equifax has claimed that there was no evidence of unauthorized activity on its core consumer or commercial credit reporting databases. But do you feel comfortable knowing that your personal information is in the hands of people who could do you considerable financial harm?

What's more, it's easy to be lulled into a false sense of security as time passes and you don't experience any problems related to the hack. But it could be many months or even years before criminals try to use your information, and it pays not to assume that you're immune.

Whether you believe your information was exposed or not, there are several steps you can take in the aftermath of the breach to protect your financial affairs. The Federal Trade Commission (FTC) has recommended the following actions:

1. Visit a special Equifax link at www.equifaxsecurity2017.com that the company set up to help consumers. (This link isn't monitored or controlled by the FTC.) To find out whether your information has been compromised, click on the "Potential Impact" tab and enter your last name and the last six digits of your Social Security number. Your Social Security number is sensitive information, so make sure you're on a secure computer and an encrypted network connection before you enter it. The site will tell you whether you're a victim of the breach.

2. Regardless of whether your information has been exposed or not, if you're a U.S. citizen you can get one year of free credit monitoring and other services. When you're ready to enroll, return to the site and click "Enroll." Currently, you have until January 31, 2018, to take advantage of this offer, but the deadline may be extended.

3. Check your credit reports from the big three credit reporting agencies by visiting annualcreditreport.com. Accounts or activity that you don't recognize may indicate identity theft. Another link provided at IdentityTheft.gov tells you what to do if you think there's a problem.

4. Consider a "freeze" on your credit files. With a freeze, it's hard for a criminal to open a new account in your name. However, a credit freeze won't prevent someone from making charges to your existing accounts.

5. Continue to monitor credit card and bank accounts closely for charges you don't recognize. Remember that it may take a while for such activity to occur.

6. If you decide against a credit freeze, you might instead place a "fraud alert" on your files. A fraud alert essentially warns creditors that you may be an identity theft victim and that they should verify that anyone seeking credit in your name really is you.

7. File your tax return early. If you're at risk, it helps to get your return into the IRS before a scammer has a chance to. Tax ID theft occurs when someone uses your Social Security number to seek a tax refund or a job. Also, be sure to respond immediately to any letters from the IRS.

Finally, visit Identitytheft.gov/data breach to learn more about protecting yourself after a data breach. In addition, your trusted financial advisors can provide you with more guidance. ❐

deduction can exceed the write off under the standard deduction.

❐ You can contribute via a donor-advised fund, which entitles you to a large immediate deduction on annual donations you pledge to make over a period of years. If you suddenly strike it rich, this is a great way to go.

Old Ivy has been around since before the income tax and has managed to flourish, but the new economics of supporting education is disrupting the finances of major educational institutions and the effects are yet to be felt. If you have questions about donating money to a school or your priorities in planning your estate, please contact us. ❐

10 Years After The Great Recession

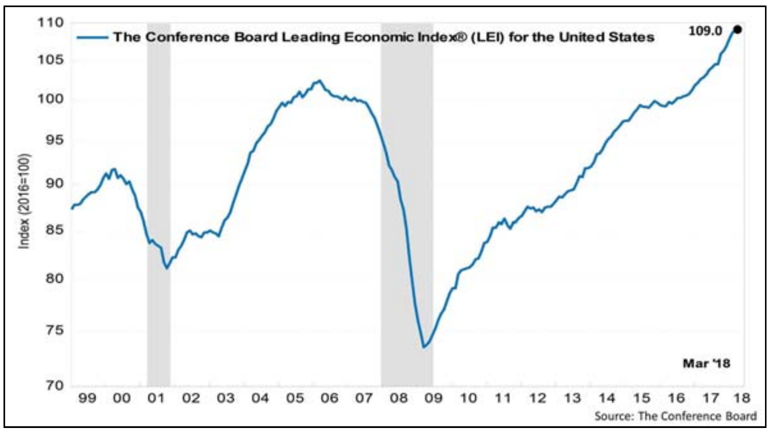
Ten years ago, the economy was bleak. The U.S. was in a recession. The subprime mortgage crisis was undermining Bear Stearns, Lehman Brothers, Countrywide Financial, AIG, and other major financial institutions; General Motors looked like it might go out of business. Then, in a story for the ages, the nation bounced back and led the world out from The Great Recession.

Over the last 10 years, a dollar in America's 500 largest public companies grew to $2.48. From the stock market's low point on March 9, 2009, a dollar appreciated in value 4.75 times, to $4.72 – a 372% return!

For the past decade, what makes America exceptional was in plain sight but difficult to see in the moment. It's never easy to see why U.S. stocks would gain in value. The current period is no different.

Share prices plunged 10.2% in early February, on inflation jitters, and again in March, on fears of a trade war. In April, *The Wall Street Journal* warned of a long period of weakness and cracks in global growth. Things looked bleak.

We're here to remind you that U.S. leading economic indicators released in April continued a long surge far beyond the highest point of the last expansion. This key forward-looking composite of 10 indicators points to solid growth for the rest of 2018. Despite the headlines, increased market volatility, and a weak first quarter return on stocks, very strong economic fundamentals remain in place. We're here to help you manage your portfolio for the long run. ❐



Influence The Next Generation

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and local taxes.

Paying for private school tuition. 529s to pay for kindergarten through 12th grade are now permitted, but you must check to see if your state allows you to deduct 529s used to pay for private schools.

Consider financial aid. A 529 might hurt a child's chances for financial aid at private high school. However, 529s do not penalize an applicant for Federal Student Aid (FAFSA) for college.

Children with special needs. This bolsters a federal tax break for those who become blind or disabled before age 26. It also covers education for modern maladies, like ADHD and autism. Enacted in 2014, ABLE accounts make gifts to individuals with special needs eligible for tax-free growth in 529 accounts. The 529 accounts are not figured into eligibility for Medicaid, Social Security income or Supplement Security Income (SSI) payments.

Deduct up to $15,000 a year by giving to an ABLE account from a 529. Spouses get twice as much benefit. Withdrawals are tax-free for qualified expenses, like employment training, housing, fighting autism, ADHD and overcoming disabilities.

If you have the privilege to be able to help the next generation and want to finance religious school, military training, or help a child with special needs, this is a loophole for you. Please let us know if we can assist you with making this happen. ❐

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