Norman J. Politziner's
Financial Planning

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2018 Estate Tax Changes And What May Be Ahead

The tax code overhaul brought a lot of changes, but for the estate tax, the most far-reaching result was what didn't happen. Chiefly, you didn't lose the capital gains break on inherited assets when they are sold.

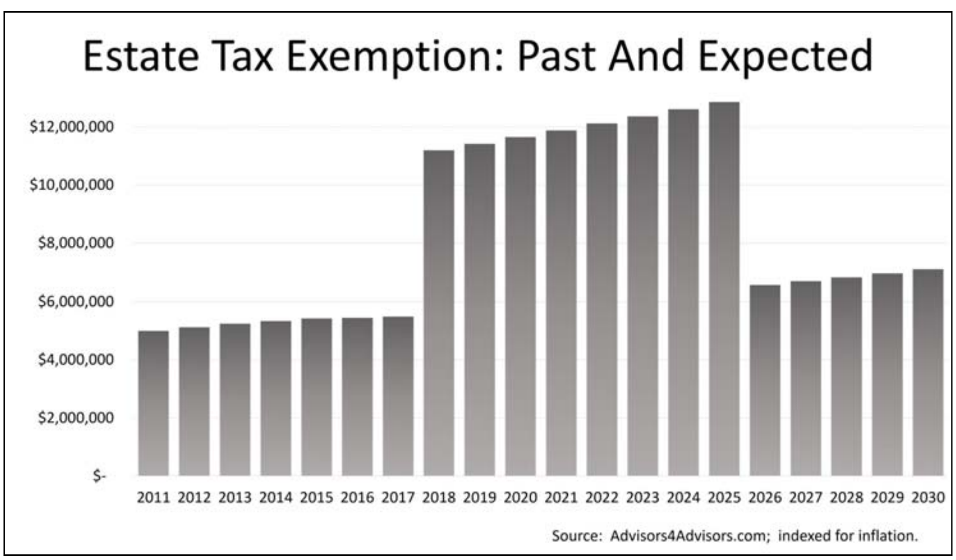
For tax purposes, the value of an asset, when sold, rises to its current market-value even though it was originally purchased at a lower price. The result is a lighter tax when an heir sells off stocks or other holdings that were part of the bequest.

For a narrow slice of the population, one weighty thing did happen with tax reform: Very wealthy households received a better deal on how much of their estate is taxable. Their fondest wish did not come true, to be sure, and the new tax law did not kill what is derisively called "the death tax." However, Uncle Sam's claim on inherited mega-money has been shrunk by the new law. Starting in 2018, the exemption for estate tax nearly doubles. The amount that can be passed along to heirs tax-free rises in 2018 to $11.2 million from $5.5 million for individuals, and to $22.4 million, from $11 million, for couples.

Above the new thresholds, the Internal Revenue Service expects to collect 40%. However, an important and favorable new wrinkle increases the exclusion annually by the rate of inflation.

The good news — and bad — is that through the end of 2025 is a great time to die, but Congress could modify the just-enacted rules as soon as 2019, particularly with recent changes in the political climate. Left unchanged, this new part of the tax code is set to expire in 2026.

The number of estates that will pay any tax, according to the Tax Policy Center, is expected to drop from 5,300 in 2017 to 1,700 in 2018.



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A Habit Of Breaking Habits

Success has a way of stifling someone. You do something well, you do it again and soon enough, that becomes the only way you do it. It works, it is comfortable and it is an insidious way to stifle creativity. It is a self-made box, like a familiar sofa and on that sofa it is so easy to fall asleep. A self-imposed man cave...beer and pretzels anyone?

But, comfort and creativity don't play well together and that is especially true when it comes to our business. There are people in my industry who have 30 years in the business but only one year of experience, repeated 29 times.

Early in my career I vowed never to be THAT guy and to that end I became the first CFP® at Equity Services, the first one with a newsletter and the first with a website. I was in the first graduating class of Certified Financial Transitionists, the only post CFP® designation recognized by the Institute of Certified Financial Planners.

In late September, I made another leap. I left Equity Services and merged my practice with Kingsview Asset Management, LLC, a Registered Investment Advisory firm operating on a national level, and partnered with Bill Koehler, a younger guy who is bright, savvy and very client oriented. We are sharing ideas, creating new ones, and learning from each other.

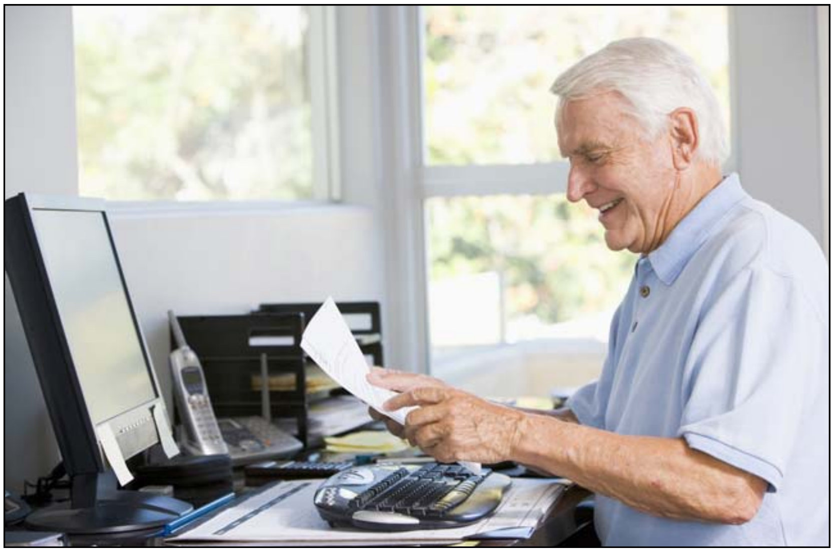
I wonder how much I can learn in the next 10 years.

Norm

Key Facts On Deducting Medical Expenses

Medical expenses can run up your expenses a lot. For that reason, the new tax law gives people a break by sweetening the long-time tax deduction for health care, at least for a couple of years.

Before the Tax Cuts and Jobs Act (TCJA), you could deduct medical expenses that exceeded 10% of your adjusted gross income (AGI). For the tax years of 2017 and 2018, the TCJA lowered the threshold to 7.5%. AGI is taxable income minus all deductions, IRA contributions and student loan interest. Of course, the medical tax break is available only to people who itemize.



The trouble is the more generous deduction expires after 2018, when the threshold rises back to 10%. Groups like AARP are lobbying in Washington to get the 7.5% level extended or made permanent, and that could factor into your timing and decisions about medical expenses in the months ahead.

Say your AGI is $45,000 and you rack up $5,475 in medical costs. You multiply $45,000 by 0.075 (7.5 percent) to get your deduction threshold of $3,375. Only medical expenses above $3,375 would be deductible. Result: your medical expense deduction is $2,100 ($5,475 minus $3,375).

Some big-ticket items are deductible medical expenses, like long-term care insurance premiums, nursing home payments and Medicare costs — including Medicare Part B, Medigap policies, Medicare Advantage programs and Part D Prescription plans.

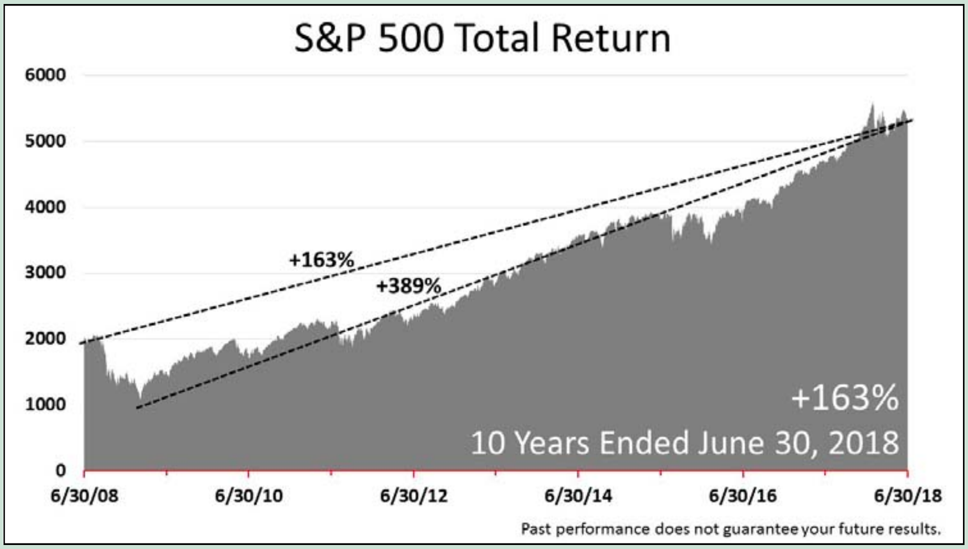
In addition, any health insurance you pay out of pocket can be deducted. But that can't include coverage you pay for with before-tax dollars, which is often the case with employer-sponsored medical plans.

Another big deductible item is co-payments for prescription drugs — and also out-of-pocket fees for doctors, dentists, physical therapists and other health-care professionals not covered by Medicare or any other health insurance. Add in prescription eyeglasses, hearings aids and wheelchairs, and transportation costs to and from medical appointments, as well as alcohol and drug treatment programs.

Medical expenses are deductible only if they alleviate or prevent a physical or mental defect or illness, including dental and vision. So, you cannot deduct a gym membership if it is to promote your general wellness. However, if a doctor diagnoses you with a specific medical condition, such as obesity or hypertension, then the expense of the prescribed treatment may indeed be tax-deductible, including a gym membership. ❐

Ten Things About 10-Year U.S. Stock Market Performance

Although a picture is said to be worth a thousand words, out of respect for your time, here are 290 words about this chart of U.S. stock market performance over an amazing decade.



1. Over the 10-year period ended June 30, 2018, the S&P 500 total return index gained +163%, an average annual return of 16.3%, compared to the average annually since 1926 of 10%.

2. From the financial crisis bottom on March 9, 2009, the S&P 500 total return index through June 2018 gained +389% — an average return in those nine years of 43.2%.

Protect Yourself Against Spearphishing

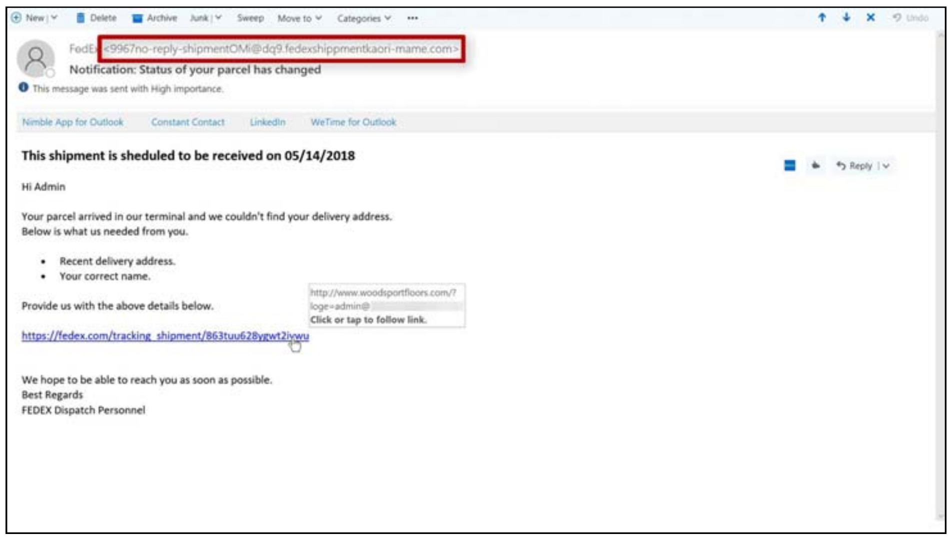
The Russian conspiracy to meddle in the 2016 presidential campaign relied on a common scam called "spearphishing." While the history-making scam may sound sophisticated, this form of digital fraud is running rampant. Anyone using email is likely to be attacked these days. Here are some tips to protect yourself.

In a spearphishing attack, a hacker sends you an email message to trick you into disclosing your username and password to a secure account. The message looks like it's from a legitimate source you trust.

You click on the link and, unbeknownst to you, you install a program that records your next 100 keystrokes. The email from a trusted source was a Trojan Horse, malicious software that sends your password and user ID to the hackers.

New variants of the scam are appearing so fast that anti-virus software can't keep up, which puts you on the front line in defending yourself from attack. Perhaps the most important way to thwart an attack is by looking at links in emails before clicking.

In this popular spearphishing scam, hovering over the link in the email displays a website address that is absolutely, positively not Federal Express. And the email address from which this message was sent is plainly NOT a legitimate Federal Express dot-com account. Often the "From" address will tip you off to a fraud.



Phishing emails, until recently, were easy to spot because they commonly contained misspellings, grammatical errors and company branding mistakes. A scan of hundreds of recent phishing messages indicates fewer of these telltale signs. The scammers are getting smarter.

While the cat versus mouse game has of late been won by the evildoers, software solutions are growing stronger. For example, Microsoft Office 365 online users now have a way of designating a message as "Phishing." This new feature for "blacklisting" a malicious message prevents a scam from hitting you twice and gives Microsoft information about its origin. Of course, updating your anti-virus software is always a must. If you ever have any questions about emails you receive from us, please do not hesitate to call us. ❐

3. In the nine-year bull run, stocks "corrected" — market-speak for a decline of 10% to 20% — four times, and each double-digit setback came in the last five years.

4. An investor with perfect timing predicted the March 9, 2009 low during the bottom of the 40% drop in prices in the bear market of 2008-9, which no one could, and then held for the next nine years, despite four corrections.

5. An investor with the worst possible timing, who put their retirement nest egg in stocks at market peak a decade ago, just before values plunged by 40%, in the decade, averaged a return of 16.3% annually.

6. The Great Recession decline of 40% was one of the worst bear markets in modern U.S. history.

7. Those within five years of retiring are at the greatest risk to bad timing and can be mitigated by strategically allocating assets, which is crucial to pre-retirees.

8. America's 500 largest publicly held companies more than fulfilled their role as the engine of growth in a broadly diversified retirement portfolio.

9. Understanding 10 years of stock market performance requires knowing statistics, but mostly depends on knowing the history of domestic and global financial assets, along with economic fundamentals driving growth.

10. No one can predict the end of a bear or bull market or the stock market's next big move. ❐

10 Things: New Education Tax Breaks For A Child Or Grandchild

1. If you have a child or grandchild, for the first time ever, you can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. Thanks to the Tax Cuts And Jobs Act (TCJA), you now can draw up to $10,000 tax-free per student from a 529 plan, which is a tax-advantaged program sponsored by states, state agencies, and educational institutions.

3. While your contributions to a 529 plan are not deductible, earnings grow free of federal income tax on withdrawals to pay for qualified school expenses.

4. You are not limited to 529 plans sponsored by your state. You can choose from a long list of 529s sponsored by other states and choose the right one for you. Call us if you want help with this.

5. A big relief is that the new law leaves the student loan interest deduction unchanged at $2,500. Some lawmakers wanted to scrap it, but the majority rallied to the tax break's defense. Americans owe some $1.48 trillion in student debt, and it's definitely a thing to watch.

6. When student loans are cancelled due to death or disability, they now become tax-exempt. Till now, the debt would be added to the income of a deceased or disabled individual. This new tax benefit is not retroactive, and only affects loans taken from 2018 through 2025. Congress may choose to extend this tax break.

7. The TCJA axes taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid. Their income won't be as high as what's reflected in tax records, which is what federal aid officials rely on to determine who to help and by how much.

8. Tax deductions for interest on home equity loans and lines of credit were eliminated. These are major sources of education funding, businesses, and a range of other expenses. It's gone.

9. The new federal levy on colleges with big endowments could result in still-higher tuition costs.

10. Education tax breaks were boosted overall by the TCJA, but you almost must be a financial professional to manage the complexities of funding the education of a child tax-efficiently and with low investment expenses. ❐

2018 Estate Tax Changes

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For heirs, the most important developments are what the House and Senate left alone. Those relate to capital gains and how surviving spouses can structure their own estates, a concept called portability:

Capital gains. The technical term for this untouched provision is a "step-up in basis." Let's say your father dies and you inherit Apple stock that he bought at $8 per share in 1983, a little after it went public. Today, Apple stock changes hands for around $172. That kind of appreciation usually means a whopping capital gains bill, should you unload the shares to fund, say, buying a new home. In other words, a 15% tax bite on the price escalation of $164 for each of the shares. Thanks to the step-up, the IRS values your Apple shares at $172, rather than the earlier $8 per share.

Portability. This is a helpful tax benefit for married couples, which Congress also let stand as is. It permits a surviving spouse to receive the unused part of the estate-tax exemption of the dead spouse. Example: Dick and Jane have an estate worth millions. Dick dies and leaves $3 million of it to his children. Remember that the exemption for one person is $11.2 million. Under the law, Jane can use the leftover $8.2 million for her estate planning. That's a big deal to her beneficiaries.

Please let us know if you'd like to receive a weekly email about tax and financial news affecting your wealth. ❐

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