BEYOND THE HORIZON

HORIZON FINANCIAL ADVISORS NEWSLETTER

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IN THE NEWS

On December 22, 2017 the Tax Cuts and Jobs Act was signed into law by President Trump. Most of the changes introduced by the bill went into effect on **January 1, 2018 and will expire at the end of 2025.** The following is meant to highlight tax rules and limits for the UPCOMING 2018 tax year. The limits/rules that are <u>underlined</u> below are, specifically, changes brought about by the new law.

- <u>The new tax brackets for 2018 are 10%, 12%, 22%, 24%, 32%, 35% and 37%. In addition to the rates changing, the income range for each bracket also changed. Below we have included the brackets for individual filers and those who are married filing jointly.</u>

INDIVIDUALS

Previous (2017) Tax Rate Applied	Taxable Income Between	*<u>NEW</u>* Tax Rate Applied	Taxable Income Between
10%	$0—$9,325	10%	$0—$9,525
15%	$9,326—$37,950	12%	$9,526—$38,700
25%	$37,951—$91,900	22%	$38,701—$82,500
28%	$91,901—$191,650	24%	$82,501—$157,500
33%	$191,651—$416,700	32%	$157,501—$200,000
35%	$416,701—$418,400	35%	$200,001—$500,000
39.6%	Over $418,400	37%	Over $500,000

MARRIED FILING JOINTLY

Previous (2017) Tax Rate Applied	Taxable Income Between	*<u>NEW</u>* Tax Rate Applied	Taxable Income Between
10%	$0—$18,650	10%	$0—$19,050
15%	$18,651—$75,900	12%	$19,051—$77,400
25%	$75,901—$153,100	22%	$77,401—$165,000
28%	$153,101—$233,350	24%	$165,001—$315,000
33%	$233,351—$416,700	32%	$315,001—$400,000
35%	$416,701—$470,700	35%	$400,001—$600,000
39.6%	Over $470,700	37%	Over $600,000

- The 0% tax rate on capital gains and qualified dividends still exists. Previously, the 0% tax rate applied to filers who fell in the 15% or lower tax bracket. <u>Since there is no longer a 15% tax bracket under the new law, a dollar amount has been established to determine where the 0% rate applies. That amount is $77,200 for married filers, $38,600 for single filers, and $51,700 for heads of household, which very closely equates to the new 12% bracket.</u>

- The standard deduction for all filing statuses nearly doubles. The standard deduction is $24,000 for married filers (plus $1,300 for each spouse age 65 or older), $12,000 for single filers (plus $1,600 if age 65), and $18,000 for heads of household (plus $1,600 if age 65).

- The personal exemption (which was $4,050 per person in 2017) is REPEALED for 2018.

- If itemizing deductions, taxpayers can now claim no more than $10,000 of the total of all state and local income taxes, sales taxes, and real property taxes on Schedule A.

- The threshold for deducting medical expenses claimed on Schedule A for 2018 is 7.5% of AGI for all taxpayers. That amount will increase back to 10% in 2019.

- Itemized deductions subject to the 2% floor (such as investment expenses, tax preparation fees, and unreimbursed employee business expenses) are repealed.

- The limit for deducting charitable contributions for those who itemize will now be 60% of income instead of 50%.

- The deduction for mortgage interest is capped at $750,000 of debt and is allowed on a first or second home. Also, interest on home equity loans will no longer be deductible.

- Beginning with divorces in 2019, alimony payments to an ex-spouse are no longer deductible and will not be taxable income to the recipient.

- The child tax credit doubles to $2,000 per qualifying child.

- Taking the deduction for Traditional IRA contributions may be limited for those who participate in an employer-sponsored retirement plan. The AGI income phase-out increases to $101,000-$121,000 for marrieds and $63,000-$73,000 for singles. Where only one spouse is active in a plan, the phase-out increases slightly to $189,000-$199,000.

- Certain limits for contributions into employer-sponsored retirement plans INCREASE for 2018. The contribution limit for 401(k)s and 403(b)s increases by $500 to $18,500 (plus a $6,000 "catch-up" for those age 50 or older). However, the limit for contributions to a Simple IRA again holds at $12,500 (plus a $3,000 "catch-up").

- The maximum contribution limit for Traditional or Roth IRAs continues to HOLD at $5,500 plus an additional $1,000 for individuals age 50 or older. As always, you OR your spouse must have earned income equal to at least the amount of your total contributions in order to make a Traditional or Roth contribution.

- The income limit for making Roth IRA contributions also increases slightly with the phase-out at $189,000-$199,000 for married filers and $120,000-$135,000 for single filers.

- The estate and gift tax exemption also doubles to $11,200,000 for those dying and gifts made after December 31, 2017.

- The annual gift tax exclusion INCREASES to $15,000 per recipient.

- The contribution limit to Health Savings Accounts ("HSAs") increases slightly to $3,450 for single coverage and $6,900 for family coverage. HSA owners age 55 or older can contribute an additional $1,000. As always, you can make the contribution only if you have a "high-deductible health plan", which now means having insurance coverage with an annual deductible of at least $1,350 on single coverage and $2,700 on family coverage. In addition, the out-of-pocket maximum threshold is now $6,650 on single and $13,300 on family coverage.

- The Social Security wage base for this payroll tax INCREASES from $127,200 to $128,400 for 2018.

- Those collecting Social Security before full retirement age (who are between the ages of 62 and 66) can earn $17,040 in 2018 without losing benefits. But individuals who reach their Full Retirement Age during 2018 can earn up to $45,360 in the months before reaching FRA without losing benefits.

- Qualified withdrawals from 529 Education Savings Accounts have expanded to allow distributions of up to $10,000 per beneficiary for education other than higher education. In other words, distributions can now be made for elementary and secondary school, not just college.

- The Lifetime Learning education credit phases out at AGI levels between $114,000-$134,000 for married filers and between $57,000-$67,000 for single filers.

- The standard mileage rate increases in 2018 to 54.5 cents per mile for business driving and to 18 cents per mile for medical purposes. However, the rate holds at 14 cents per mile for charitable driving.

In our opinion, most taxpayers who stand to gain from the new law will not see a significant tax savings. Therefore, changes brought about by the new tax law may not require a change in tax planning or strategy for most taxpayers. What might need to be adjusted is the amount of Federal income taxes being withheld from earned or other income. If you have any questions, be sure to consult your tax advisor or tax return preparer.

Sources: Internal Revenue Service; National Association of Tax Professionals; Paychex; Kiplinger; Forbes.

MARKET OUTLOOK

As we do at the beginning of each year, we reflect on events that occurred and the performance of the markets during the prior year. It was quite a fruitful year for investors last year. The health of the markets was largely supported by global expansion. According to American Funds, 31 of out 32 countries being tracked are currently in an expansion or recovery. With the exception of energy and telecom, nearly every sector and every asset class performed well in 2017. The Dow gained 28.1%, the S&P 500 gained 21.8%, the Nasdaq gained 29.6%, and 10-year Treasuries gained 8.2%. But the clear winner was international equities, in particular, the emerging markets. International equities gained 27.8% in 2017, and the emerging markets equities gained 37.8%. Last year was the first time since 2012 that international stocks outperformed their domestic counterparts. Last year should also be remembered for improved investor confidence and low equity volatility. Equity volatility, measured by the average daily VIX close, was the lowest seen since 1993.

As we begin the new year, U.S. tax legislation recently passed is likely to stimulate economic growth. American consumers are expected to begin spending more from tax dollars saved. In addition, the lower tax rate on U.S. corporate income should mean higher profits, greater capital spending, and an increase in dividends paid to shareholders. Economists at American Funds expect the tax bill will result in a 0.25% increase in U.S. GDP growth. On the other hand, the tax cuts are likely to increase the U.S. budget deficits and long-term debt levels. This may cause the Federal Reserve to raise interest rates faster than expected if the stronger U.S. economy and rising spending sparks inflation.

As for the stock markets in particular, investors continue to question how long this bull market can continue and how much higher stocks can continue to rise. That will depend, largely in part, on future economic growth. In the post-war period, economic expansions have averaged 60 months in length. The current recovery is now over 100 months. But, as we've often heard, recoveries don't die of old age. Historically, the U.S. economy, on average, has expanded to 123% of its prior peak before rolling over into a recession. According to research by American Funds, we are presently at 115% of that prior peak. Because economic growth is expected to continue and no significant imbalances exist in the financial systems, this current recovery still has some life left in it. Though stock valuations are high, corporations are realizing strong earnings growth, which gives stock prices room to move higher. But there is no mistaking that this recovery is in a later chapter of the story.

As for our investment strategy for 2018, we are increasing our exposure to international equities and, in particular, the emerging markets due to continued improvement in the international economies and markets. We feel this strategy could be appropriate for clients who are longer-term investors and are comfortable taking a moderate amount of risk. The emerging markets now account for the biggest share of global gross domestic product, outpacing the U.S. At the same time, emerging markets currently have the lowest forward price-to-earnings ratios and are enjoying the lowest volatility seen for that asset class in nearly a decade.

Though 2018 is forecasted by many to be another positive year for the economies and markets, now is not the time to be overly aggressive. High levels of investor confidence increase the amount of greed, which always poses a danger to the markets. As always, it's important to hold a diversified portfolio, which may include high quality bonds, fixed annuities, and other alternative investments.

Sources: Marketwatch; Hays Advisory; American Funds; Morningstar.

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