# INVESTMENT 2018

HARLAN NEWSPAPERS • SPECIAL SECTION • JAN. 12, 2018

# TAXES

## 2018 IS A BIG YEAR

## PLAN NOW - NOT LATER

WASHINGTON, DC - The new tax reform law, commonly called the "Tax Cuts and Jobs Act" (TCJA), is the biggest federal tax law overhaul in 31 years, and it has both good and bad news for taxpayers.

You should work with a tax professional to understand how these changes specifically impact your 2018 financial picture.

- **Drops of individual income tax rates** ranging from 0 to 4 percentage points (depending on the bracket) to 10%, 12%, 22%, 24%, 32%, 35% and 37% — through 2025
- **Near doubling of the standard deduction** to $24,000 (married couples filing jointly), $18,000 (heads of households), and $12,000 (singles and married couples filing separately) — through 2025
- **Elimination of personal exemptions** — through 2025
- **Doubling of the child tax credit** to $2,000 and other modifications intended to help more taxpayers benefit from the credit — through 2025
- **Elimination of the individual mandate** under the Affordable Care Act requiring taxpayers not covered by a qualifying health plan to pay a penalty - effective for months beginning after December 31, 2018
- **Reduction of the adjusted gross income** (AGI) threshold for the medical expense deduction to 7.5% for regular and AMT purposes — for 2017 and 2018
- **New $10,000 limit on the deduction** for state and local taxes (on a combined basis for property and income taxes; $5,000 for separate filers) — through 2025
- **Reduction of the mortgage debt limit** for the home mortgage interest deduction to $750,000 ($375,000 for separate filers), with certain exceptions — through 2025
- **Elimination of the deduction for interest** on home equity debt — through 2025
- **Elimination of the personal casualty and theft loss deduction** (with an exception for federally declared disasters) — through 2025
- **Elimination of miscellaneous itemized deductions** subject to the 2% floor (such as certain investment expenses, professional fees and unreimbursed employee business expenses) — through 2025
- **Elimination of the AGI-based reduction** of certain itemized deductions through 2025
- **Elimination of the moving expense deduction** (with an exception for members of the military in certain circumstances) — through 2025
- **Expansion of Sect. 529** plan distributions to include those used to pay qualifying elementary and secondary school expenses, up to $10,000 per student per tax year
- Doubling of the gift and estate tax exemptions, to $10 million (expected to be $11.2 million for 2018 with inflation indexing) - through 2025

| | Pre-Reform 2018 Tax Rules | Post-Reform 2018 Tax Rules |
|---|---|---|
| *Individual tax rates* | • Maximum tax rate is 39.6%<br>• Rates associated with specific income brackets are designated below: | • Maximum tax rate reduced to 37%<br>• Rates associated with specific income brackets are designated below: |

| Pre-Reform Taxable income: Rate | Single | Married | Post-Reform Taxable income: Rate | Single | Married |
|---|---|---|---|---|---|
| 10% | $0-$9,525 | $0-$19,050 | 10% | $0-$9,525 | $0-$19,050 |
| 15% | $9,526 - $38,700 | $19,051 - $77,400 | 12% | $9,526 - $38,700 | $19,051 - $77,400 |
| 25% | $38,701 - $93,700 | $77,401 - $156,150 | 22% | $38,701 - $82,500 | $77,401 - $165,000 |
| 28% | $93,701 - $195,450 | $156,151 - $237,950 | 24% | $82,501 - $157,500 | $165,001 - $315,000 |
| 33% | $195,451 - $424,950 | $237,951 - $424,950 | 32% | $157,501 - $200,000 | $315,001 - $400,000 |
| 35% | $424,951 - $426,700 | $424,951 - $480,050 | 35% | $200,001 - $500,000 | $400,001 - $600,000 |
| 39.6% | Over $426,700 | Over $480,050 | 37% | Over $500,000 | Over $600,000 |

| | Pre-Reform 2018 Tax Rules | Post-Reform 2018 Tax Rules |
|---|---|---|
| *Alternative minimum tax (AMT)* | • Exemption amounts of $86,200 (married) and $55,400 (single)<br>• Phase-out of exemption amount begins at $164,100 (married) and $123,100 (single) | • Exemption amounts increased to $109,400 (married) and $70,300 (single)<br>• Phase-out of exemption amount begins at $1,000,000 (married) and $500,000 (single) |
| *Individual standard deduction/personal exemptions* | • Standard deduction is $13,000 (married) and $6,500 (single)<br>• Personal exemption of $4,150 phased out for higher incomes | • Standard deduction nearly doubled to $24,000 (married) and $12,000 (single)<br>• Personal exemptions repealed at all income levels |

# Making money management... UNMISTAKABLE!

***A holistic approach to managing your finances links decisions about money with matters of the heart.***

**Diane Stewart**
**Financial Consultant**

The U.S. consumer is awash in financial information and tools in preparing for their financial future. An Internet search of the words "financial planning" generates millions of Web hits.

With all this financial know-how at Americans' fingertips, it's reasonable to believe they are doing the things to put their financial house in order. **Right?**

**Wrong.** Americans tend to avoid financial goal setting. If they do set goals, they focus on a specific one such as saving for college or retirement. However, they often fail to look at the entire picture, including weaving in their personal values into the equation, which can be critical to building a personalized financial program. A holistic approach to managing your finances links decisions about money with matters of the heart.

**Another common mistake** is making a financial decision without understanding its effect on other financial issues. One's choices do not operate independently from one another. Attention to estate protection, for instance, will affect the resources available to address other needs and desires, such as vacations or giving to charity. Financial professionals can help you with decisions to fit within a universe of other money matters.

**What are some other areas to consider?**
**Here are some ideas from Thrivent Financial:**

- **Confusing full-throttle financial strategizing with just investing.**

The consideration of mutual funds and other investment products in money decisions is only one option in a sea of other financial tools.

- **Thinking that only the rich should pay time and attention to managing their finances.**

Monetary worth should in no way sway whether or not one hones financial skills and adopts a financial philosophy.

- **Believing that it can wait.**

Time generally helps a well-developed financial program, so getting a jumpstart on retirement planning at a young age works in one's favor. Also, crises can happen at any age, and financial preparation will help a person get out of those unexpected ruts.

- **Neglecting to re-evaluate financial decisions periodically.**

Reviews should be done on at least an annual basis. Life events—like marriage, childbirth, job changes, home ownership—should also be signals to revisit financial goals.

Financial information is out there, and the more Americans can learn about financial matters, the better. Building financial knowledge, getting started early, seeking help when needed – these will help make personal money management unmistakable for long-term success.

This article was prepared by Thrivent Financial for use by Harlan representative Diane Stewart. She has offices at 617 Durant St. in Harlan and can also be reached at 712 755 7181..

## Did you know?

Those looking to rein in their spending may want to take inventory of their dining habits. The budgeting resource ***The Simple Dollar*** **says the average American eats roughly 4.2 commercially prepared meals per week.**

This equates to around 18 meals eaten outside of the home in a given month. That can cost diners roughly $232 dollars per month or more. Budget-conscious diners looking to curtail their spending can be pickier about when they choose to dine out. Simply eating at home a few more times per month can add up to considerable savings.

## *Most investors fail to take full advantage of the stock market -*

# 3 investment mistakes most people make

Investing in the stock market provides you with an opportunity to put your money to work, seeking to earn an impressive return. Historically, the Standard and Poor's 500 Index has returned close to 10 percent on an average annual basis.

Of course, past performance is no guarantee of future results. But most investors fail to take full advantage of this opportunity. In fact, they often earn considerably less than the average market return.

A 2015 report from DALBAR Inc. showed that the average investor underperformed the S&P 500 by 3.6 percent.

In 2016, the gap widened: The S&P 500 returned about 12 percent, while the average investor saw only about a 5% return.

### Why does this happen? There are three big mistakes investors tend to make—over and over again.

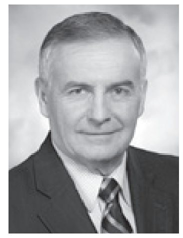
**Mistake #1: Trying to time the market.**

It's impossible to predict when you should sell ahead of a downturn or start buying before a resurgence. When investors try to time the market, they often miss the mark, buying high or selling low—or both. In the process, they negatively affect their potential return.

People who think they know that the market is about to drop (or make a comeback) may be kidding themselves. No one knows for certain what will happen next. What is predictable is that the market will experience periodic volatility.

So instead of trying to time the market, you can plan for volatility by engaging in a long-term investment strategy and using dollar-cost averaging—purchasing a certain amount of an investment on a set schedule. That way, you'll be purchasing more stock when the price is low, less when the price is high.

Of course, a program of systematic investing does not guarantee a profit or protect against losses in declining markets. An investor should consider his or her ability to continue making purchases during periods of declining prices, when the value of their investment may be falling.



Randy Pash, CLU
Chartered Financial Consultant

**Mistake #2: Reacting emotionally.**

Warren Buffett, one of the most successful investors ever, famously advised against letting emotions sway investment decisions when he said, "Be fearful when others are greedy and greedy when others are fearful."4

It's easy to feel confident and excited about investing when markets go up. It's also natural to experience panic when markets drop and you start seeing losses in your portfolio.

But giving in to these emotions leads most investors to sell low (when the market goes down, and people are worried about "losing" money) and buy high (when the market goes up, and securities are more expensive).

**Mistake #3: Believing you know more than the market.**

Most economists and financial experts believe the stock market is efficient. This means the prices of securities in the market reflect their actual value.

But some investors act on hunches and predictions about what the market (or specific securities within it) will do next. Remember that professional investors and fund managers have access to an incredible amount of information that they use to make investment decisions, and this information is not readily available to the average investor.

### The bottom line.

You can avoid these three common mistakes by contributing consistently to your investment accounts each month (regardless of what the market is doing), assuming that you can afford to do so, working with a financial professional who can keep you calm and thinking rationally when you want to react emotionally, and sticking to your overall financial plan and investment strategy—instead of trying to guess the next hot stock.

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# Traditional IRAs vs. Roth IRAs

Adequate retirement planning can set men and women up to enjoy their golden years however they see fit. Getting to retirement with enough money takes discipline and commitment and may require some sacrifices along the way.

"Retirement planning" is an umbrella term that covers various types of financial products and investments. One of the products prospective investors are likely to hear about when mulling their retirement investment options is an Individual Retirement Account, or IRA.

An IRA is a personal retirement savings plan that can provide tax benefits to those who qualify. When speaking with a financial planner or exploring options on their own, prospective investors will hear about traditional IRAs and Roth IRAs and wonder what distinguishes one from the other.

**A Google® search yielded the following on retirement income**

The typical advice is that you should aim to replace 70% to 90% of your annual pre-retirement income through savings and Social Security. For example, a retiree who earns an average of $63,000 per year before retirement should expect to need $44,000 to $57,000 per year in retirement.

courtesy: www.nerdwallet.com/investing/retirement-calculator

Google

**Contributions**

Contributions to traditional IRAs are pre-tax, and they may be tax deductible depending on the account holder's income and other factors. Contributions to Roth IRAs are made with post-tax income and are not eligible for tax deductions.

**Taxes on distributions**

While men and women about to open an IRA likely won't have to worry about distributions for quite some time, it's important that prospective account holders know that, according to Prudential, traditional IRA account holders will pay federal taxes on their account's investment earnings and on pre-tax contributions when money is withdrawn. Roth IRA account holders will not pay federal taxes on withdrawals, including their investment earnings, if they meet certain eligibility requirements. Prospective investors should know that there are tax penalties for account holders who withdraw money from their traditional or Roth IRAs before they reach age 59$^1$/2. Exceptions to that rule should be discussed with a tax or accounting professional.

**Income requirements**

In order to open an IRA, whether it's a traditional or Roth IRA, prospective account holders must have earned income, such as wages, salaries or income from self-employment. Men and women who do not work can still open an IRA, but only if their spouse is employed and the couple jointly files their tax return. There also may be income limits depending on which type of IRA an investor chooses. There are no income limits attached to traditional IRAs, but account holders' ability to deduct contributions from their income may be limited if their spouse is eligible to participate in an employer-sponsored retirement plan. There are income limits associated with Roth IRAs. Account holders' adjusted growth income must be below certain limits depending on their tax filing status (i.e., filing single or filing jointly with a spouse).

**Distributions and age**

The IRS notes that traditional IRA account holders must begin taking distributions by April 1 following the year in which they turned 70$^1/_2$ years of age and by Dec. 31 in future years. No minimum distributions are required for Roth IRA account holders. Understanding the various types of IRAs can be difficult and yoou should not hesitate to contact financial planning professionals.

# Tax time is a key time for investing

With the arrival of the New Year, many of us will pause and ponder the age old question: "Who knows where the time goes?" And, as is always the case, none of us really do know. However, wherever the time goes, it will usually be a key factor in your success as an investor.

Time can affect how you invest, and the results of your investing, in different ways:

• **Growth potential –** Contrary to myth, there's no real way to "get rich quick" when investing. To build wealth, you need patience – and time. If you own quality investments with growth potential, and you give them years – in fact, decades – to increase in value, your perseverance may be rewarded. Of course, there are no guarantees, and you'll need the discipline to withstand the inevitable downturns along the way. But in describing how long he likes to keep his investments, renowned investor Warren Buffet says his favorite holding period is "forever."

• **Targeted goals –** To accumulate resources for retirement, you need to save and invest throughout your working life. But along the way, you'll probably also have some shorter-term goals – making a down payment on a home, sending your children to college, taking a round-the-world trip, and so on. Each of these goals has a specific time limit and usually requires a specific amount of money, so you will need to choose the appropriate investments.

**Debbie Davis**
**Financial Advisor**

• **Risk tolerance –** The element of time also will affect your tolerance for risk. When you have many decades to go until you retire, you can afford to take more risk with your investments because you have time to overcome periods of market volatility. But when you're on the verge of retirement, you may want to lower the risk level in your portfolio.

For example, you may want to begin moving away from some of your more aggressive, growth-oriented investments and move toward more income-producing vehicles that offer greater stability of principal. Keep in mind, though, that even during retirement, you'll need your portfolio to provide enough growth opportunity at least to help keep you ahead of inflation.

Thus far, we have looked at ways in which time plays a role in how you invest. But there's also an aspect of time that you may want to keep out of your investment strategies. Specifically, you might not want to try to "time" the market. The biggest problem with market timing is it's just too hard. You essentially have to be right twice, selling at a market top and buying at the bottom.

Also, as humans, we appear to be somewhat wired to think that an activity – especially a long-running activity – will simply continue. So, when the market goes up, we seem to expect it to keep rising, and when the market drops, we think it will continue dropping. This can lead to big mistakes, such as selling after a major market drop even though that can be the time when it may be much smarter to buy because prices are low.

As we've seen, the way you interact with time can affect your investment efforts. So, think carefully about how you can put all the days, months and years on your side. Time is the one asset you can't replenish – so use it wisely.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor, Debbie Davis, Financial Advisor.

# Naming Beneficiaries...
# What you need to know before you decide


A major issue in estate planning is whom to name as beneficiaries on life insurance policies, pension plan accounts, IRAs, and annuities. This important decision often doesn't take into account the substantial estate and income tax consequences the beneficiary may incur.

Before you name a beneficiary, you may wish to gain a basic understanding of beneficiary designations.

In many cases, beneficiary designations supersede a will. That said, not only is naming a beneficiary important, it is equally important to make sure that your beneficiary arrangements are consistent with your other estate planning documents.

**Not All Beneficiary Designations Are the Same**

You can name a beneficiary for many different financial products and investment vehicles. Each has some subtle nuances that are sometimes difficult to discern. In addition, because naming a beneficiary is a legal arrangement, there is certain language you must use to ensure your wishes are accurately recorded and executed.

That's why it is important to consult with a qualified financial professional when making decisions about beneficiaries. Aside from determining whom you will name as your beneficiary, you'll also need to consider the following:

- **Age of beneficiary**
  Most policies and plans will not directly transfer assets to minors until a trustee or guardian is approved by a court.

- **Ability of beneficiary to manage assets**
  Perhaps a trust set up in the person's name would be better than a direct transfer.

- **Pension plans**
  Unless waived by the spouse in writing, the law requires a spouse to be the primary beneficiary of the account.

**Professional Assistance a Must**

Naming beneficiaries is a complex matter that requires a great deal of forethought to help ensure that your decisions are in concert with your financial and estate planning goals. A qualified financial professional can assist you in reviewing your beneficiary designation and help you make choices that are appropriate for your situation.

Information provided by Anthony Hough and Joe Zaccone, Hough & Zaccone Investment Management. Anthony Hough and Joe Zaccone are registered representatives with and securities offered through LPL Financial. Member FINRA/SIPC.





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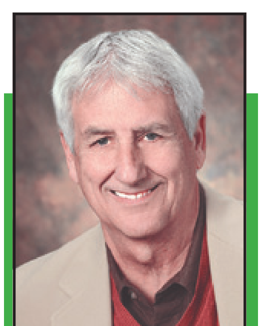

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