

Tax Reform - Observations and Potential Opportunities

Part of my role as your financial advisor is to stay current on changing legislation such as the recently passed Tax Cuts and Job Act. My initial advice on tax reform is to proceed slowly and not make any significant changes right away since there are a lot of misconceptions about the final tax bill. While the Corporate Tax Rate is reduced permanently from 35% to 21%, the individual tax reform is set to sunset or go away at the end of 2025.

Below are my current observations on a few highlighted items from the act and potential recommendations that we may consider together depending on your Financial Plan.

Standard Deductions Increase

The standard deduction is increasing for individual and married filing jointly from \$6,500 and \$13,000 respectively to \$12,000 and \$24,000. Most filers will now use the standard deduction since you would only be able to itemize if your total deductions are greater than these amounts. If you use the standard deduction, the changes to the deductions noted below are no longer relevant. If you can still itemize, you need to be aware of the following changes to the various deductions.

- All miscellaneous itemized deductions subject to the 2% floor are suspended.
- Medical Deduction decreases from 10% of income to 7.5%.
- Mortgage interest remains for mortgages at \$1,000,000 but is reduced for new mortgages to \$750,000.
- Home Equity Interest Deduction is eliminated while previously you were able to deduct interest on loans up to \$100,000.
- State and Local Taxes (SALT) which includes Property Tax is now limited to \$10,000 where it was previously unlimited.

20% Deduction for Small Business

Most sole proprietors and partners were previously taxed at their personal income rates. Under the new plan, some of these entities will be able to deduct 20% of "qualified business income" as long as their incomes do not exceed certain income thresholds and other restrictions. This deduction could be significant if a business owner qualifies. Any tax savings should be used to increase retirement savings through 401(k) Plans, Simple IRA Plans, or SEP IRAs.

Personal Exemptions Eliminated

The act also eliminates the personal exemption of \$4,150 per individual that further reduced your taxable income. Qualified Charitable Donations (QCD) provide an opportunity to lower your taxable income. If you donate to charity on a regular basis and are older than 70 ½, you can use a portion or all of your Required Minimum Distribution (RMD) and send it directly to the charity of your choice to avoid having the RMD treated as income and thereby reducing your tax bill. If you are still working and believe you will be paying more taxes, you may consider increasing your pre-tax deferral in your 401(k) Plan or contribute to a Traditional IRA.

Child Tax Credit Increases

The child tax credit increases from \$1,000 per qualifying child to \$2,000 and increases the existing threshold to \$200,000 for individual filers and \$400,000 for married filing jointly. This credit may be used in conjunction with the standard deductions. Tax credits are more advantageous than deductions since they reduce your actual tax bill versus your taxable income.

I am proud to announce that I am now a CERTIFIED FINANCIAL PLANNER™. This designation is a culmination of my experience, rigorous advanced coursework, and passing an extensive exam. As a financial professional, the CFP® validates my comprehensive approach to financial planning, the importance of further education, and my belief that I act as a fiduciary by putting your needs first.

With the country's economy continuing to strengthen, personal financial security is still uppermost in many peoples' minds. They are eager for advice about their retirement, estate plans, insurance, emergency funds, liabilities, and their asset allocation. Today's financial conditions require a holistic approach - looking at an individual's entire financial picture, not just one aspect. Working with a CERTIFIED FINANCIAL PLANNER™ professional is assurance that he or she is a credentialed expert who does just that, and is held to high ethical and professional standards.

Please feel free to contact me to review your Financial Plan.

Kind regards,
Meghan



Meghan Phillips Dykstra CFP®
Investment Advisor Representative
900 East Front Street, Suite 200
Traverse City, MI 49686
phone: 231-486-6188
fax: 231-486-6191
Meghan.dykstra@TandemWealthTC.com
TandemWealthTC.com

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