

FINANCIAL TID-BITTS

Information to chew on...



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Hi Everyone,

Spring seemed to get skipped this year, as it feels like we went right from snow to sunshine. Memorial Day is almost here, which means the busy summer is about to start.

The articles this month focus on the new tax laws. Many only see how it has or hasn't changed their paycheck, but won't see the whole effect until next tax filing season. Hopefully these will help prepare you for the changes. Pass them along to anyone you feel may have an interest in them. If you have questions or I can help in any way, please don't hesitate to call. Thank you.

Steve

May 2018

Quiz: Can You Answer These Social Security Benefit Questions?

The Standard Deduction and Itemized Deductions After Tax Reform

What are the gift and estate tax rules after tax reform?

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Government Report Details Household Finances



Every three years, the Federal Reserve sponsors the Survey of Consumer Finances (SCF), which collects information on the financial state of U.S. households. The survey is

one of the nation's primary sources of information on the financial condition of different types of households. Here are a few interesting observations gleaned from the most recent surveys conducted in 2013 and 2016, with the latter comparing changes during that timeframe.

Income

The typical household's median family income rose 10% between 2013 and 2016, from \$48,100 to \$52,700. During that same period, mean income (the average) increased 14%, from \$89,900 to \$102,700. Families at the top of the income distribution saw larger gains in income between 2013 and 2016 than other families, consistent with widening income inequality.

Across age groups, median and mean incomes show a life-cycle pattern, rising to a peak in the middle age groups and then declining for groups that are older and increasingly more likely to be retired. Income also shows a strong positive association with education; in particular, incomes for families headed by a person who has a college degree tend to be substantially higher than for those with lower levels of schooling.

Incomes of white non-Hispanic families are substantially higher than those of nonwhite (black or African-American non-Hispanic, Hispanic, or Latino, and other or multiple race) families. Income is also higher for homeowners and for families living in urban areas than for other families, and income is systematically higher for groups with greater net worth.

Wealth

Families near the bottom of the income and wealth distribution experienced large gains in mean and median net worth following large declines between 2010 and 2013. Families

without a college education and nonwhite and Hispanic families experienced larger proportional increases in net worth than other types of families, although more-educated families and white non-Hispanic families continue to have higher wealth than other families.

Overall, median and mean inflation-adjusted net worth — the difference between a family's gross assets and liabilities — rose between 2013 and 2016. Overall, the median net worth of all families rose 16% to \$97,300, and mean net worth rose 26% to \$692,100. Much of the increase in wealth was driven by the increased prices of homes and investments such as stocks and other securities.

The same patterns of inequality in the distribution of wealth across all families are also evident within race/ethnicity groups: For each of the race/ethnicity groups, the mean is substantially higher than the median, reflecting the concentration of wealth at the top of the wealth distribution. White families had the highest level of both median and mean family wealth: \$171,000 and \$933,700, respectively. Black families' median and mean net worth was less than 15% that of white families, at \$17,600 and \$138,200, respectively. Hispanic families' median and mean net worth was \$20,700 and \$191,200, respectively.

A few other interesting facts

Homeownership rates decreased between 2013 and 2016 to 63.7%, continuing a decline from their peak of 69.1% in 2004. For families that own a home, mean net housing values (value of a home minus outstanding mortgages) rose.

Retirement plan participation and retirement account asset values rose for families across the income distribution, with the largest proportional increases occurring among families in the bottom half of the income distribution.

Overall, many measures of debt and debt obligations indicate that debt has fallen, while education debt increased substantially between 2013 and 2016.



Did you know that 94% of all workers are covered under Social Security?

Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017

Quiz: Can You Answer These Social Security Benefit Questions?

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

Questions

1. Can you receive retirement and disability benefits from Social Security at the same time?

- a. Yes
- b. No

2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?

- a. Reduced by 30%
- b. Reduced by 40%
- c. Reduced by 50%
- d. Your benefit will not be reduced

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

- a. 6%
- b. 7%
- c. 8%

4. Monthly Social Security benefits are required to be paid by which of the following methods?

- a. Paper check only
- b. Paper check, direct deposit, or debit card
- c. Direct deposit or debit card

5. Are Social Security benefits subject to income tax withholding?

- a. Yes
- b. No

6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?

- a. Less than 12 months since you've been receiving benefits
- b. Less than 18 months since you've been receiving benefits
- c. Less than 24 months since you've been receiving benefits

Answers

1. b. No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

2. d. Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

3. c. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

5. b. No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

6. a. If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.



The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. After 2025, these provisions revert to pre-2018 law.

The Standard Deduction and Itemized Deductions After Tax Reform

The Tax Cut and Jobs Act substantially increased the standard deduction amounts for 2018 to 2025. It also eliminated or restricted many itemized deductions for those years. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Standard deduction

The standard deduction amounts are substantially increased in 2018 (and adjusted for inflation in future years).

	2017	2018
Single	\$6,350	\$12,000
Head of household	\$9,350	\$18,000
Married filing jointly	\$12,700	\$24,000
Married filing separately	\$6,350	\$12,000

Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 is \$1,600 (up from \$1,550 in 2017) for single/head of household or \$1,300 (up from \$1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Itemized deductions

Many itemized deductions have been eliminated or restricted. The overall limitation on itemized deductions based on the amount of adjusted gross income (AGI) was eliminated. Here are some specific changes.

Medical expenses: The AGI threshold for deducting unreimbursed medical expenses was reduced from 10% to 7.5% for 2017 and 2018, after which it returns to 10%. This same threshold applies for alternative minimum tax purposes.

State and local taxes: Individuals are able to claim an itemized deduction of up to only \$10,000 (\$5,000 for married filing separately) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income taxes). Previously, there were no dollar limits.

Home mortgage interest: Individuals can deduct mortgage interest on no more than \$750,000 (\$375,000 for married filing separately) of qualifying mortgage debt. For mortgage debt incurred before December 16, 2017, the prior \$1,000,000 (\$500,000 for married filing separately) limit will continue to apply. A deduction is no longer allowed for

interest on home equity indebtedness. Home equity used to substantially improve your home is not treated as home equity indebtedness and can still qualify for the interest deduction.

Charitable gifts: The top percentage limit for deducting charitable contributions is increased from 50% of AGI to 60% of AGI for certain cash gifts.

Casualty and theft losses: The deduction for personal casualty and theft losses is eliminated, except for casualty losses attributable to a federally declared disaster.

Miscellaneous itemized deductions: Previously deductible miscellaneous expenses subject to the 2% floor, including tax preparation expenses and unreimbursed employee business expenses, are no longer deductible.

Alternative minimum tax (AMT)

The standard deduction is not available for AMT purposes. Nor is the itemized deduction for state and local taxes available for AMT purposes. If you are subject to the alternative minimum tax, it may be useful to itemize deductions even if itemized deductions are less than the standard deduction amount.

Year-end tax planning

Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

With the substantially higher standard deduction amounts and the changes to itemized deductions, it may be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction. Thus, while this might seem counterintuitive from a nontax perspective, it may be useful to make charitable gifts in years in which you have high medical expenses or casualty losses.

In this environment, qualified charitable distributions (QCDs) may be even more useful as a way to make charitable gifts without itemizing deductions. QCDs are distributions made directly from an IRA to a qualified charity. Such distributions may be excluded from income and count toward satisfying any required minimum distributions (RMDs) you would otherwise have to receive from your IRA. Individuals age 70½ and older can make up to \$100,000 in QCDs per year.

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What are the gift and estate tax rules after tax reform?

The Tax Cuts and Jobs Act, signed into law in December 2017, approximately doubled the federal gift and estate tax basic exclusion amount to \$11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exclusion is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, federal gift and estate taxes remain the same.

Gift tax. Gifts you make during your lifetime may be subject to federal gift tax. Not all gifts are subject to the tax, however. You can make annual tax-free gifts of up to \$15,000 per recipient. Married couples can effectively make annual tax-free gifts of up to \$30,000 per recipient. You can also make unlimited tax-free gifts for qualifying expenses paid directly to educational or medical service providers. And you can make deductible transfers to your spouse and to charity. There is a basic exclusion amount that protects a total of up to \$11.18 million (in 2018) from gift tax and estate tax. Transfers in excess of the basic exclusion amount are generally taxed at 40%.

Estate tax. Property you own at death is subject to federal estate tax. As with the gift tax, you can make deductible transfers to your spouse and to charity; there is a basic exclusion amount that protects up to \$11.18 million (in 2018) from tax, and a tax rate of 40% generally applies to transfers in excess of the basic exclusion amount.

Portability. The estate of a deceased spouse can elect to transfer any unused applicable exclusion amount to his or her surviving spouse (a concept referred to as portability). The surviving spouse can use the unused exclusion of the deceased spouse, along with the surviving spouse's own basic exclusion amount, for federal gift and estate tax purposes. For example, if a spouse died in 2011 and the estate elected to transfer \$5 million of the unused exclusion to the surviving spouse, the surviving spouse effectively has an applicable exclusion amount of \$16.18 million (\$5 million plus \$11.18 million) to shelter transfers from federal gift or estate tax in 2018.