

Fact

Eighty percent of advisers do not have a succession plan in place, though about half of them already know they will need to transition their businesses within the next ten years.

Source: Jamie Price, President and CEO
Advisor Group

“I believe that through knowledge and discipline, financial peace is possible for all of us.”

Dave Ramsey

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Tax Cuts and Job Act of 2017: What It Means For You

By: Jason Eliason, CFP®, ChFC®, CFA®

Now that we are immersed in having our 2017 income tax returns completed, let's talk about what's new for 2018. In mid-December, Congress passed considerable tax law changes that were signed shortly thereafter by the president. This piece of legislation is named the **Tax Cuts and Job Act of 2017** (TCJA). This article is going to focus on some of the more common aspects of the TCJA, which are likely to impact the individual taxpayer. The TCJA is an incredibly vast piece of legislation, focusing both on corporate tax law and personal tax law.

It is important to note that the personal tax law changes were enacted with a sunset provision, which means that the changes are only effective for a period of time (2018-2025). If TCJA is not made permanent by then, or another act is not passed, the changes sunset, and we revert to the tax laws that were in effect in 2017 for 2026 forward.

Tax Brackets

Under TCJA, there are seven tax brackets, which are lower than the previous seven tax brackets.

	2017			2018		
	Taxable Income		Tax Rate	Taxable Income		Tax Rate
	Single Filers	\$0	\$9,325	10%	\$0	\$9,525
\$9,935		\$37,950	15%	\$9,525	\$38,700	12%
\$37,950		\$91,900	25%	\$38,700	\$82,500	22%
\$91,900		\$191,650	28%	\$82,500	\$157,500	24%
\$191,650		\$416,700	33%	\$157,500	\$200,000	32%
\$416,700		\$418,400	35%	\$200,000	\$500,000	35%
\$418,400		Over	39.60%	\$500,000	Over	37%
Married Filing Jointly	Taxable Income		Tax Rate	Taxable Income		Tax Rate
	\$0	\$18,650	10%	\$0	\$19,050	10%
	\$18,650	\$75,900	15%	\$19,050	\$77,400	12%
	\$75,900	\$153,100	25%	\$77,400	\$165,000	22%
	\$153,100	\$233,350	28%	\$165,000	\$315,000	24%
	\$233,350	\$416,700	33%	\$315,000	\$400,000	32%
	\$416,700	\$470,700	35%	\$400,000	\$600,000	35%
\$470,700	Over	39.60%	\$600,000	Over	37%	

You may have recently noticed your net paycheck is more. That is because the new withholding tables are now effective, and employers are withholding less. Additionally, the default tax withholding rate on bonuses or other supplemental income is now 22%. A word of caution: the 22% federal income tax withholdings may not sufficiently cover your federal income tax liability.

For example, imagine a situation in which the husband has taxable W-2 earnings of \$85,000 and the wife has taxable W-2 earnings of \$105,000, plus she receives a \$25,000 bonus. The bonus will only have 22% withheld for federal income taxes, but the couple will be in the 24% bracket. Thus, they will likely owe more in income taxes when they file their return.

Deductions and Credits

A significant aspect of TCJA was the removal and limitation on some popular itemized deductions and credits. One of the most significant removals is the **personal exemption**. In the past, the taxpayer and spouse, plus every dependent would receive a \$4,050 exemption that would reduce taxable income. For a family of five, that amounted to a deduction of \$20,250.

Another major change is related to deducting taxes paid. For anyone that itemized their deductions, one of the largest deductions typically is related to taxes you paid. This includes state and local income taxes and real estate taxes. Under TJCA, this deduction is capped at \$10,000.

A third significant change is also related to **itemized deductions**. The TJCA eliminated the deduction related to miscellaneous deductions. These included unreimbursed job expenses, tax preparation fees, investment fees, etc.

The TCJA made a beneficial change that will benefit those that make cash donations to charities. Previously, the charitable deduction was limited to 50% of your adjusted gross income (AGI). It has been expanded to 60%.

The standard deduction will be utilized by more taxpayers going forward due to the changes. This will simplify things for those taxpayers. The standard deduction increases to \$12,000 for single filers from \$6,350, and \$24,000 for married filing jointly from \$12,700.

The child tax credit was expanded to increase the number of taxpayers that will qualify. Under previous law, the child tax credit was \$1,000 per dependent under the age of 17; however, it was phased out if your income was over \$75,000 as a single taxpayer or \$110,000 for a married couple. Going forward, the phase-out is increased considerably – it is \$200,000 for single taxpayers and \$400,000 for married taxpayers filing a joint return.

There is also a new provision that allows for a \$500 credit for dependents who do not qualify for the child tax credit, which is also subject to the income phaseouts mentioned above. This will impact many older children that are still considered dependents, such as those that are pursuing higher education.

For 2018, the ability to deduct medical payments under Schedule A for those that will be able to itemize their deductions is more expansive. The threshold for deducting medical expenses will be based on a 7.5% of AGI floor. For 2019 forward, it reverts to a 10% of AGI floor.

Under TJCA, employer-provided moving expenses are now considered taxable income to the employee. Under previous law, employers could offer a payment to help offset the cost of an employee relocating that was not taxed.

New alimony agreements put in place in 2018 and later are treated entirely different than before. Previously, the amount one ex-spouse paid to the other as alimony was an above the line deduction for the ex-spouse paying alimony and taxable income for the receiving ex-spouse. Going forward, the paying ex-spouse will not receive the deduction and the payment will not be taxable to the receiving ex-spouse. It is important to point out this does not affect agreements already in-place; it only impacts new agreements or older agreements that are legally modified.

Estate and Gift Taxes

The amount of wealth that can be passed from one generation to the next received a drastic increase under TCJA. In 2017, you could pass \$5.49M to non-spouse U.S. citizens free from federal estate tax. This exemption amount is called the unified credit. For 2018, the **unified credit** is increased to \$11.2M per person.

The **annual gift tax exclusion** increases for 2018 too. The amount of money you can give to another person will increase to \$15,000 in 2018.

Section 529 Plans

Section 529 plans are commonly known as college savings accounts. Generally speaking, you could make contributions to the plans and have the account grow tax-free. So long as the money is used for qualified, post-secondary education expenses (room, board, and tuition), the money is never taxed. They are excellent planning tools due to this very tax-favorable provision. Under TCJA, the definition of what is a permitted qualified expense is expanded to include private school K-12 tuition expenses up to \$10,000 annually.

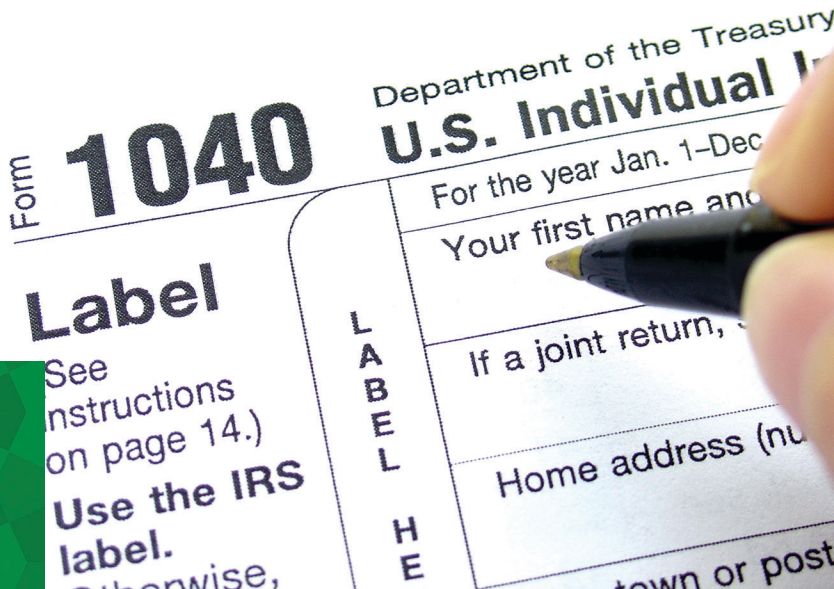
Qualified Business Income

The TJCA brought us something new, which is a deduction for **self-employed taxpayers** and small-business owners that are structured as a pass-through entity, such as an S-Corp, Partnership or LLC. The provision enables 20% of qualified business income (QBI) not to be subject to federal income taxation. This provision is extremely complex and still needing clarification from the IRS on some of the more nuanced aspects. The concept is simple in design, basically, you will not pay federal income taxes on 20% of your profits; however, the code is extremely complex.

An essential aspect to point out is certain trades and businesses are limited to taking the deduction. These include those that are in the fields of health, law, accounting, consulting, performing arts, athletics and financial services. The ability to take the QBI deduction for those fields is limited to an income phase-out. For individual taxpayers, the phase-out starts at an income of \$157,500 and is eliminated if income exceeds \$207,500. For married taxpayers, the phase-out starts at an income of \$315,000 and is eliminated if income exceeds \$415,000. It is important to point out that the ability to take the deduction is based on taxable income, not just your business income.

Moreover, the **income limitation** only applies to those taxpayers in fields that are dependent on their skills and reputation – pretty much anyone in the professional services industry. If you or your company is in the business of producing something, such as manufacturing, architectural design and engineering, the income limitation does not apply.

The TJCA brought about many changes for personal income tax filers going forward. The changes are quite nuanced and will impact your financial planning situation. A significant amount of our resources will be spent this year reviewing your case and taking steps to enable you to best position yourself with regard to the new tax laws. One question that we have heard a lot already is whether you will be better off under the new tax law. It is difficult to say without crunching the numbers, but in many cases, we expect people to be paying less in federal taxes initially.





Stuff You Should Know: Real Property Taxes in Ohio

By: Chris Olsgard, CFP®

The Tax Cuts and Job Act of 2017 (TCJA) ushered in several significant changes for the individual taxpayer. Among the changes going forward is a cap on the deduction available for each taxpayer's combined property taxes, as well as state and local income taxes. While a larger standard deduction and more favorable tax brackets will offset the potential tax increase for most clients, this should cause many taxpayers to pay more attention to the cumbersome property tax that all residents of the Buckeye State must pay. In this article, we dig into the history of property taxes in Ohio and cover a few components of the tax to which you may not be familiar.

Applying the Taxes

Although determining your property taxes may seem as simple as multiplying the value of your property by the millage rate, it is far from being that easy. Before I explain this in more detail, here are some things to know:

Appraisals	According to state law and department rules, auditors conduct a full reappraisal of real property every six years and update values in the third year following each sexennial reappraisal.
Taxable (Assessed) Value	Ohio revised code stipulates the maximum taxable value for real property shall not exceed 35% of the appraised value above.
Inside Mills	The Ohio Constitution allows a maximum limit of 10 mills of property tax without requiring voter approval.
Outside Mills	This includes all millage approved by voters.
House Bill 920 Factor	This bill, which was passed in 1976, offsets the annual taxes charged for each levy. The purpose of the factor is to keep the total amount paid for each levy the same as the year it was passed, in spite of property appreciation.
Non-Business Credit	Since 1971, a 10% reduction or "rollback" has been applied to each taxpayer's bill. This is limited to properties not intended to be used primarily for business. This credit may be reduced by certain factors but generally stays pretty close to 10%.
Owner-Occupied Credit	In short, this is a 2.5% reduction in the taxes charged by levies for any places that are owned and occupied as a home. Not all levies qualify for this reduction but generally, the credit stays pretty close to 2.5%.
Homestead Exemption	This exemption allows low-income senior citizens and permanently disabled Ohioans to reduce their property tax bills by shielding some of the market value of their homes from taxation. The exemption, which takes the form of a credit on property tax bills, allows qualifying homeowners to exempt up to \$25,000 of the market value of their homes from all local property taxes. For example, a home with a market value of \$100,000 is billed as if it is worth \$75,000.
Due Dates	Ohio collects its property taxes semi-annually in arrears, meaning the taxpayer is paying the previous year's taxes in the current year. The due date for the first half of the year is January 20 and the second half of the year is June 20.

Here is an example of the process for a hypothetical \$500,000 home located in Upper Arlington, Ohio. First, the county auditor completes an appraisal of all properties in the area and calculates the tax rates based on levies approved by voters. Keep in mind, the total millage rate is reduced accordingly to satisfy HB 920 mentioned above.

In this example, the total tax rate in Upper Arlington is 141.90 mills. The HB 920 factor for reduction is 0.458, resulting in an effective millage rate of 76.90. The appraised value is lowered to 35% of the appraised value, resulting in a taxable value of \$175,000. The next step is to apply the aforementioned millage rate of 76.90 to the number of mills for the property.

→ \$175,000 divided by \$1,000 = \$175 → 175 x 76.90 = \$13,457

This annual tax amount is then reduced by the 10% non-business credit and 2.5% owner-occupied credit to arrive at the taxpayer's final tax bill for the year of \$11,775.

A Little Controversy

Since the real property tax debut in 1825, Ohioans have debated the merits of this funding model for public education. Ironically, in 1935 the state legislature implemented the Ohio Retail Sales Tax Law to help prevent the financial collapse of the public school system as the Great Depression rendered many Ohioans unable to pay their property taxes, thus eliminating much of the education funding. In 1991, 500 school districts filed suit against the state for failing to provide adequate funding to educate students. In 1996 the Ohio Supreme Court ruled the current method of funding violated the Ohio Constitution.

Furthermore, from 2000 – 2002, the Ohio Supreme Court ruled again that the school-funding process in Ohio remained unconstitutional, and ordered the state government to "enact a constitutional school-funding system." The court eventually determined that the Ohio government had made a good-faith effort to change public school funding, and the justices overturned their earlier rulings.

How Do We Rank?

According to WalletHub.com, when ranked by the effective tax rate, the state of Ohio ranks 12th highest in the nation for property taxes. While this may seem like a raw deal for Ohioans, this rate must be put into context. For example, consider the median home value of \$131,900, which ranks Ohio as 9th lowest in the country. By applying the effective tax rate to our median home value, we become the 20th highest in the nation. While this is still not great, we must remember the other means through which we fund our state government, income and sales tax. It is beyond the scope of this article to rank us according to those metrics, but hopefully, you now have a better understanding of the property taxes we pay and where they originated.

*For the full article, please visit <http://waller.com/real-property-taxes-ohio/>





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News and Notes

Save the Date!

SEPTEMBER 2018

S	M	T	W	T	F	S
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2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

COSI
 6:00 pm - 9:00 pm
 Client Appreciation Event

In February, we joined **The Breathing Association** as they prepared to move buildings. Our team of volunteers helped us pack and donate various items from storage rooms.



For more information on how we made a difference, watch the video: <https://youtu.be/XbfcnrTIS-E>