BEDEL FINANCIAL CONSULTING, INC.

Financial Planning and Investment Management

# Winter 2018
# The New Standard Deduction and Charitable Giving

*By: Sarah Mahaffa, CFP®*
*Wealth Advisor*

Thanks to the Tax Cuts and Jobs Act (TCJA) individuals and businesses alike will see a significant difference in their tax filings going forward. Beginning January 1, 2018, the standard deduction increased from $6,350 to $12,000 for single filers and from $12,700 to $24,000 for married filing jointly (MFJ). With the increase in the standard deduction, many taxpayers will no longer itemize. As a result, planning for charitable giving is more important than ever.

**2018 Eligible Itemized Deductions**
First, let's review the items that are now eligible for deductions.

- **Medical expenses** – Must be greater than 7.5 percent of Adjusted Gross Income (AGI) in 2018; slated to revert back to 10 percent of AGI in 2019.
- **Property, state and local taxes** – Can be itemized up to a combined $10,000 cap.
- **Home mortgage interest payments** – Existing mortgages are grandfathered under the previous rules and will remain deductible on a principal of up to $1,000,000. Interest on home mortgages taken out after December 15, 2017, can be deducted on loan principals of $750,000 or less. Interest on home equity loans is not deductible.
- **Charitable contributions** – Increased to 60 percent of taxpayer's AGI.
- **Casualty and theft losses** - "Personal casualty losses" are deductible only if attributed to a declared national disaster.

## In This Issue



**Charitable Contribution Strategy**
An estimated 21 million taxpayers will no longer receive a deduction for charitable giving, and charitable organizations fear the impact the new ruling will have on donations. Here are three options that will allow you to support the organizations you're passionate about and reduce your tax liability at the same time!


**Strategy #1: Double-up.** Lump two or more years worth of charitable contributions into one tax year and forego contributions in the following year(s). Doubling up on contributions will help enhance the amount of your itemized deductions.

Here's a look at how doubling-up ($10,000 annually versus $20,000 every other year) can make a big difference on your tax return. Let's assume this family is MFJ and that they are eligible for the standard deduction of $24,000, plus the following itemized expenses—$10,000 for state, local and property taxes and $4,000 for mortgage interest.

| | 2018 | 2019 | Total deductions over 2 years |
|---|---|---|---|
| Charitable giving of $10,000 annually | | | |
| Standard deduction | $24,000 | $24,000 | $48,000 |
| Itemized deductions | $24,000 | $24,000 | |
| Charitable giving of $20,000 biennially | | | |
| Standard deduction | $24,000 | $24,000 | |
| Itemized deductions | $34,000 | $14,000 | |
| Deduction selected | $34,000 | $24,000 | $58,000 |

In this scenario, the family will gain an additional $10,000 in deductions over two years. For a couple in a 24 percent tax bracket, that's a savings of $2,400. Savings increase to $3,700 for a couple in the 37 percent tax bracket.

**Strategy #2:** Use a Donor Advised Fund. Consider a donor advised fund (DAF) if you're concerned that biennial donations will negatively impact the cash flow of the organizations you support. DAFs allow you to create a personal account to which you can contribute funds at anytime. You can also determine which charities you want to support and when to distribute funds to them. Your contribution is deductible the year you make it.

Continuing with the previous example, a couple could contribute $20,000 into their DAF in 2018, but spread the distributions to charities over the next two years (or beyond). Both Schwab and Fidelity maintain DAFs for our clients.

**Strategy #3:** Make Charitable Gifts from an IRA. If you are over age 70 ½ and have traditional IRA accounts, your annual required minimum distribution (RMD) can be a source of charitable giving. Rather than taking the RMD as a taxable distribution, you can direct up to $100,000 to one or more charities as a Qualified Charitable Distribution (QCD). The distribution must go directly from the trustee of your IRA (e.g. Schwab or Fidelity) to the charity. This approach also reduces your AGI since the amount of the QCD is not included as taxable income for the year. Why is this so important? The amount of your AGI impacts both Medicare premiums and taxation of Social Security benefits. One thing to note: Since you didn't pay taxes on your IRA income, you don't receive a charitable deduction for a QCD.

All these strategies are viable solutions but the way each will impact your tax return will vary based on your specific circumstances.

*Contact Sarah if you have questions or would like additional information regarding this topic.*

# BLT Corner

## We're Moving - And in More Ways Than One!

BLT CORNER

After seven years of "living" at 3815 River Crossing Parkway, we're at the end of our lease. We debated signing another lease, but decided our clients and employees would be better served around the corner at 8940 River Crossing Boulevard. We're very excited about the move because we'll be in a brand-new building yet still very close to our current "home." The office is actually under construction as you read this!

Evan Bedel, Amy House and Deanna Turner have diligently worked to design the space, both structure and décor, as well as to coordinate all the vendors, construction timelines and other details that are instrumental in making this happen. We are excited about our new look and home. We hope you'll enjoy it too! More details will follow in the coming months as we near our move-in date of May 1st.

Our location isn't the only thing that's changing this year. We're also redesigning our website and logo. Our above-mentioned creative trio, plus Kate Arndt, has pooled their talents to design a new, fresh look for Bedel Financial. If you'd like a preview of our new logo, drive past our future location at Keystone Crossing in the next couple of months. The actual rollout for the logo and our updated website will be in mid-June.

Not only have we been busy planning our relocation and new look, we've expanded our team to enhance client services and support. In the past two months, Jonathan Koop joined our Investment Team as Portfolio Manager, and Alex Golding joined the Operations Team, working alongside Kristina Dougan. We will also bring a Financial Planning Specialist on board in the first quarter. We are very excited about the newest members of our BFC family and hope that you have the opportunity to meet them this year.

We appreciate your continued loyalty in 2017 and we look forward to serving you in 2018 and beyond. See you soon!

With warmest regards,

*The Bedel Leadership Team*

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*Sr. Wealth Manager*
**Ryan Collier**
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# Industry News

## Investing with the New Tax Plan

*By: Austin Stagman*
*Investment Analyst*

The first major tax overhaul in nearly 30 years is signed and ready to go in 2018. But what changed? What stayed the same? And how does it affect individual investors, in general, and you, in particular? The nearly 1,100-page tax bill covers many details and situations, and knowing how they will affect you gives you the ammunition to make informed decisions. Here are a few key highlights.

**What Stayed the Same?**

- **Long-term capital gains.** LTCG rates, which apply to investments held longer than one year, remain at 0 percent, 15 percent, and 20 percent. Zero percent LTCG applies to those with incomes up to $38,600 for single filers ($77,200 for joint filers). Fifteen percent LTCG applies to single filers between $38,601 to $425,800 (between $77,201 to $479,000 for joint filers). Twenty percent LTCG applies to single filers with incomes of $425,801 or more ($479,001 or more for joint filers).
- **Net Investment Income Tax.** (Also known as the Affordable Care Tax) It remains at 3.8 percent for single filers over $200,000 ($250,000 for joint filers).
- **Contribution limits for Traditional and Roth IRAs.** The maximum contribution for an individual under the age of 50 is still $5,500 ($6,500 over the age of 50).
- **Deductibility of IRA and HSA contributions.** These are subject to previous requirements.

**What Changed?**

- **Short-term capital gains rates.** Investments held less than one year will now be taxed as ordinary income—the highest marginal rate for taxpayer. That means they'll be lowered for most investors, corresponding to the new income tax brackets.
- **Federal estate tax exemption.** This was increased from $5.6 million to $11.2 million per person.
- **Roth re-characterizations (reversals).** These are no longer allowed after 2017. If you converted to a Roth in 2017, you can still re-characterize by the 2018 deadline.
- **Miscellaneous itemized deduction.** These are no longer allowed. They include tax preparation fees, investment fees, safe-deposit box fees, union dues, and trustee fees that are higher than 2 percent of Adjusted Gross Income.

This is by no means the complete list of what's covered in the new tax bill, but we think these points will be pertinent to most of you. As always, you should consult a tax professional about your specific situation before taking action.

*Contact Austin if you have questions or would like additional information regarding this topic.*

**There's still time to contribute to your Solo 401k, Roth IRA or Traditional IRA. Contributions must be marked by the tax deadline!**

# GenerationNeXt

## The New Child Tax Credit: Will You Benefit?

*By: Evan Bedel, CFP®*
*Director of Strategy and Finance*

Do you know what this new tax credit entails? If you are a parent or have dependents, you'd better! The Child Tax Credit can mean cash back into the pockets of American parents when they file their tax returns. If you qualify for the tax credit, you'll receive a discount on the taxes you owe the IRS.

**Comparing the Old with the New**
If you've never been able to take advantage of it before, you may be pleasantly surprised to learn you'll be eligible this year. And if you were eligible under the previous bill, you could see an increase in your discount. Here are some of the main differences between last year's bill and the new version.

**Eligibility:**
**Old Rule:** Family income had to be $110,000 or less ($75,000 for singles).
**New Rule:** Family income can be $400,000 or less ($200,000 for singles).
If your income is above these thresholds, your benefit amount will decrease by $50 for every additional $1,000 you earn. This is called a phase-out schedule.

Clearly, a significant number of previously ineligible American families will receive the tax benefit now that the income criteria is nearly four times the previous limit. Eligibility is based on other qualifiers, but income is the number one reason most people don't qualify.

**Benefit Amount:**
**Old Rule:** $1,000 per child
**New Rule:** $2,000 per child

When you combine the increased income phase-out along with doubling the benefit amount, the new changes can have quite an impact. Here's an example:

Let's say you are a married filing jointly family with three young children and a combined income of $150,000. Under the old law you wouldn't have been eligible for a benefit. Under the new law, you'll receive $6,000 of reduced taxes!

**Refundable Credits:**
**Old Rule:** $0 (in most cases)
**New Rule:** $1,400

What if your tax credit exceeds your tax liability? Under the old law, the Child Tax Credit was nonrefundable if your credit exceeded your tax liability. Your tax bill was simply reduced to zero and you lost all remaining unused tax credits. A few taxpayers were eligible for a refund of 15 percent of earnings above $3,000, but only if they were in the 10 percent tax bracket.

Under the new law, everyone who receives the tax credit is eligible for up to $1,400 in refundable credit if their credit exceeds their tax liability. In other words, the new law allows parents to receive a benefit even if they didn't have much tax liability.

**The Bottom Line**
The controversial Child Tax Credit overhaul may have been the biggest deciding factor determining whether the Tax Cuts and Jobs Acts would pass or not. One thing is certain, however. This amended tax credit allows tax relief for more middle-income, single parents and married American families struggling with the challenges of budgeting expenses. Negotiating legislative policy will always require some give-and-take, but hopefully this law change will have a significant and positive impact on the next generation.

*Contact Evan if you have questions or would like additional information regarding this topic.*

# Q&A

## New 529 Plan Changes

*By: Abby VanDerHeyden, CFP®*
*Financial Planner*

Do you own a 529 account? If so, you've probably heard the Tax Cuts and Jobs Act bill has brought about a number of changes for individuals and families. Some of the revisions impact 529 savings plans. Here are the answers to questions you might have concerning the new 529 Plan changes.

**Q:** What were the original 529 plan rules?
**A:** The federal government created 529 savings plans to encourage families to save for future college costs. These plans offer tax-free growth on invested funds and tax-free withdrawals for qualified higher education expenses. Once the federal government established 529 plans, 33 state governments created their own tax benefits for their state's 529 plans. For example, Indiana offers a state tax credit to Indiana taxpayers who contribute to the Indiana plan. The credit is 20 percent of the annual contribution amount, up to a maximum credit of $1,000 for a $5,000 contribution.

**Q:** What are the new guidelines?
**A:** The money you invest will still enjoy tax-free growth and tax-free withdrawals for qualified college education expenses. The bill also extends these benefits to withdrawals of up to $10,000 per year for payment of private and religious K-12 tuition costs.

**Q:** When do the changes go into effect?
**A:** Great question! Because the Tax Cuts and Jobs Act was signed into law at year-end 2017, states have had little time to incorporate the new federal guidelines and other changes into their individual plans. Currently they are still working on them. If you intend to use your 529 account for payment of K-12 private or religious school tuition this year, it may be in your best interests to wait until you get a "green light" from your state's 529 plan administrator.

**Q:** Will the changes benefit me?
**A:** Possibly. The original purpose of 529 plans was to allow a tax-advantaged, longer-term way for families to save for future college education costs. Funds in 529 accounts are typically invested according to the child's age–more aggressively in the child's early years, then gradually becoming more conservative as the child nears college age. The new changes, which include distributions for shorter-term education costs, can complicate the investment strategy of the 529 plan. Be sure to consult with us if you plan to use a 529 plan for both K-12 tuition and college education expenses!

*Contact Abby if you have questions or would like additional information regarding this topic.*

**Save The Date!**
**The open house to celebrate our 30th anniversary and new office space will be Thursday, June 21st! Invitations will follow in March to April.**
**We hope to see you there!**

- **Save the Date! Our 2018 Ladies Luncheon will be held on Thursday, April 19, 2018, at Meridian Hills Country Club from 11:30 a.m. - 1:30 p.m. Invitations to follow in later February.**

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Financial Planning and Investment Management

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## Corporate Calendar

**Bedel Financial Consulting will be closed for business on the upcoming days:**

| | |
|---|---|
| May 28 | Memorial Day |
| July 4 | 4th of July |
| Sept. 3 | Labor Day |
| Nov. 22 | Thanksgiving Day |
| Nov. 23 | Day After Thanksgiving |
| Dec. 25 | Christmas Day |



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