SBSB
Tax Update

March 15, 2018

Sullivan Bruyette Speros & Blayney

Income Tax Implications

Meet Andy and Alice

Andy, 73, Retired
Alice, 72, Retired

Income:

$60,000 – IRA required minimum distributions (RMD)
$40,000 – Portfolio income
$40,000 – Pension income
$40,000 – Social Security income

Deductions:

$15,000 – Medical expenses
$10,000 – Real estate taxes
$ 8,000 – State income taxes
$ 5,000 – Charitable contributions
$20,000 – Miscellaneous itemized

For illustrative purposes only.

Impact on Andy and Alice's Deductions

Deductions	2017	2018
Medical expenses (in excess of AGI threshold)	$1,950	$1,950
State income / real estate taxes	$18,000	$10,000
Charitable contributions	$5,000	$5,000
Miscellaneous itemized (in excess of 2% of AGI)	$16,300	N/A
Total deductions:	**$41,250**	**$16,950**
Standard deduction	**$12,700**	**$24,000**
Greater of itemized or standard	$41,250	$24,000
Personal exemptions	$8,100	N/A
Total deductions:	**$49,350**	**$24,000**

For illustrative purposes only.

Impact on Andy and Alice

- Personal exemptions are eliminated
- Adjustments to allowable itemized deductions
- Standard deduction nearly doubles to $24,000
- Andy and Alice will take the standard deduction
- Their taxes will <u>increase</u> by $3,300 or 11%!

For illustrative purposes only.
Full tax bill can be found here – https://www.congress.gov/bill/115th-congress/house-bill/1/text

How Can We Help Andy and Alice?

- Qualified charitable distributions (QCD) – charitable contributions directly from IRAs
    - $5,000 Qualified Charitable Distribution
        - Tax savings of $1,500+
        - Medicare premium savings of $1,600+

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Meet Ben and Barbara

Ben, 60, Corporate Executive
Barbara, 60, Self-employed Attorney

Income:

$300,000 – Wages
$300,000 – Net self-employment income
$ 60,000 – Portfolio income

Deductions:

$30,000 – State income taxes
$15,000 – Real estate taxes
$30,000 – Mortgage interest ($1 million mortgage)
$20,000 – Charitable contributions
$30,000 – Miscellaneous itemized

For illustrative purposes only.

Impact on Ben and Barbara

Qualified Business Income Deduction (QBID):

20% tax deduction for “pass-through” businesses

Barbara is *not* eligible:

1. Total taxable income on her joint tax return exceeds $415,000
2. Personal service activities are excluded: law, medicine, design, finance, accounting, etc.

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Impact on Ben and Barbara

- Alternative Minimum Tax (AMT) – In prior years, the AMT would eliminate the benefit of numerous itemized deductions:

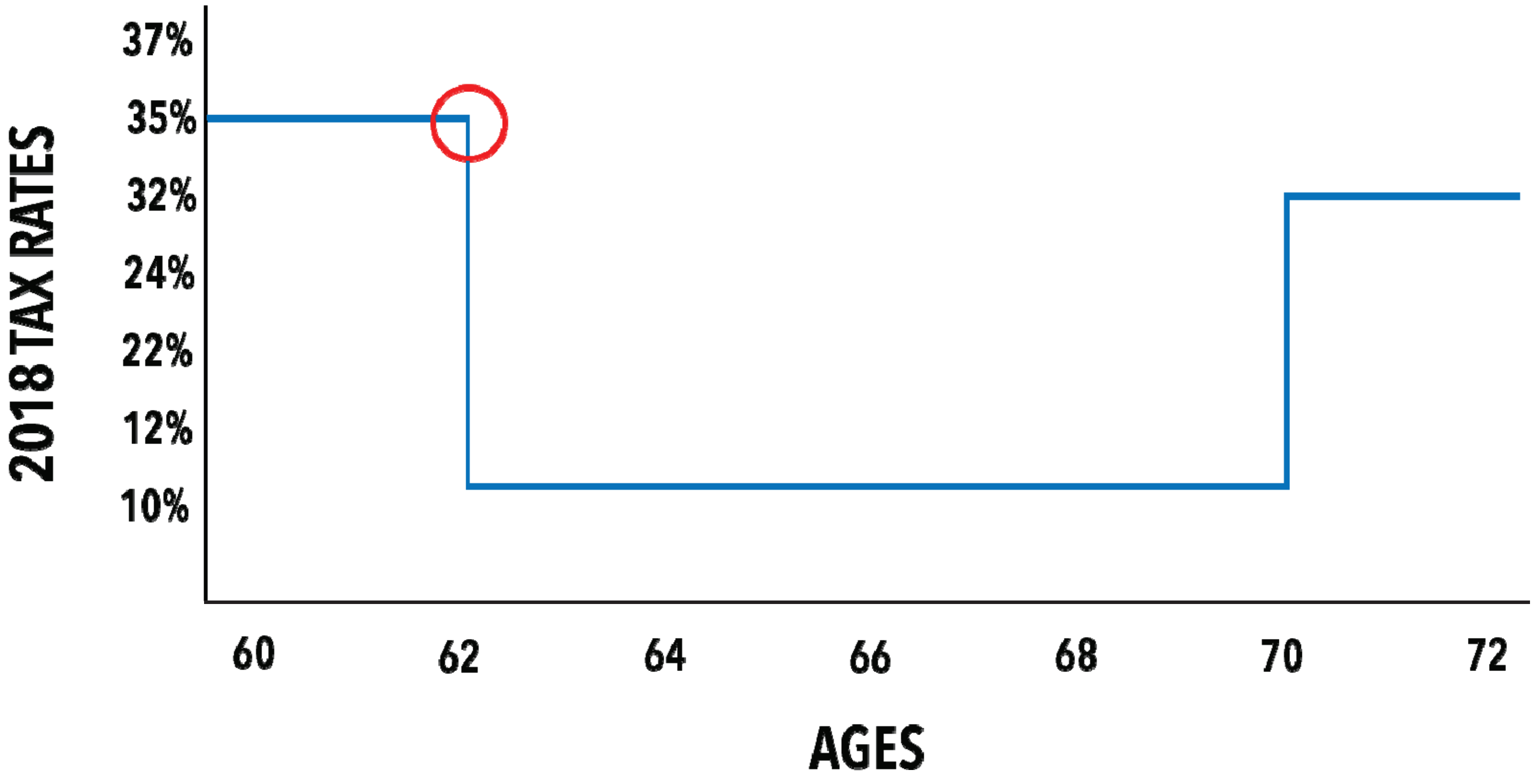
Itemized Deductions	**2017**	**2017 – AMT**	**2018**
State income and real estate taxes	$45,000	Zero	$10,000
Mortgage interest	$30,000	$30,000	$30,000
Charitable contributions	$20,000	$20,000	$20,000
Miscellaneous itemized	$30,000	Zero	Zero
Total Itemized Deductions	**$125,000**	**$50,000**	**$60,000**

- Ben and Barbara will *not* be subject to the AMT in 2018
- Their taxes will <u>decrease</u> by $9,000 or 4%

For illustrative purposes only.
Full tax bill can be found here – https://www.congress.gov/bill/115th-congress/house-bill/1/text

Planning Opportunities

Accelerate deductions – Donor Advised Fund



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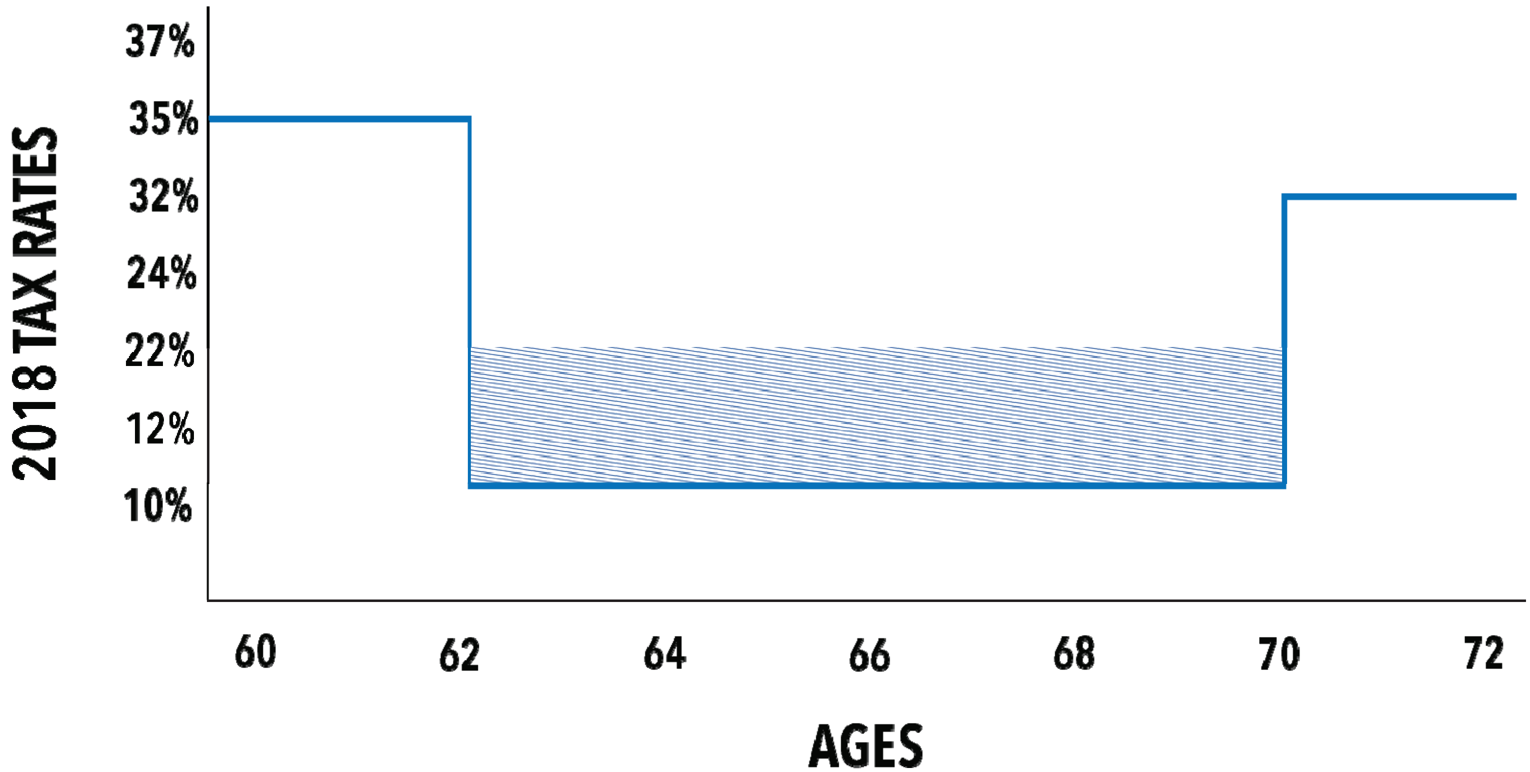
Planning Opportunities

Income generation in low tax rate years



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Estate Tax & Planning Implications

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Meet Curtis and Claire

Curtis, 75, Retired
Claire, 76, Retired

Net worth
$25 million

Three children

Ten grandchildren

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Impact on Curtis and Claire

- Estate Tax Exclusion:
  - 2017: ~$11 million
  - 2018: ~$22 million

- Curtis and Claire save ~$4.4 million

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Remaining Estate Tax Exposure

Net worth	$ 25,000,000
Exclusion	$ 22,000,000
Amount subject to estate tax	$ 3,000,000
Estate tax rate	40%
Estate tax exposure	**$1,200,000**

For illustrative purposes only.

Impact on Curtis and Claire

- Remain focused on estate tax minimization
- Strategic gifting plan to efficiently transfer assets to the next generations
- Annual Gift Tax Exclusion increased from $14,000 to $15,000 per donee
- Other strategies and tools: GRATs, 529s, SLATs*

*For illustrative purposes only. * GRAT stands for Grantor Retained Annuity Trust. A grantor transfers property into an irrevocable trust in exchange for the right to receive fixed payments at least annually, based on original fair market value of the property transferred. At the end of a specified time, any remaining value in the trust is passed on to a beneficiary of the trust as a gift. SLAT stands for Spousal Lifetime Access Trust. With a SLAT, one spouse (donor-spouse) makes a gift to an irrevocable trust using the donor-spouse's gift tax exemption. The SLAT names the non-donor spouse (beneficiary-spouse) as a current beneficiary, which allows the trustee to make distributions of trust funds to the beneficiary-spouse during his or her life. Full tax bill can be found here - https://www.congress.gov/bill/115th-congress/house-bill/1/text*

Appropriate Estate Planning

- Coordinate with attorney and SBSB to ensure documents provide for the following:
  - Asset protection
  - Probate avoidance
  - Incapacity planning
  - Coordination with state estate tax laws (DC and MD)
  - Ease of administration
- Ensure asset titling and beneficiary designations are in-line with your estate plan

 For illustrative purposes only.

In Conclusion

- Positive and negative implications
- Personal attention is critical
- Each of you has your own story - your SBSB team will continue to work with you to identify appropriate strategies and optimize your tax and overall financial situation

Disclosures

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