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The Tax Cuts & Jobs Act became law on December 22, 2017

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## Happy New Year for Stocks, New Year for Tax Law

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As the fog of the holidays clear, it is almost impossible to miss the passing of one of the largest tax overhauls in 30 years: The Tax Cuts & Jobs Act.

It is equally impossible to miss the S&P topping 2700 for the first time this morning.

While your 401k balances may look healthy, your 2018 tax situation may not. Here is a rundown of the major changes that could potentially impact you.

### Standard Deduction & Personal Exemption

- The standard deduction has been doubled for both single and married filing jointly coming in at \$12k and \$24k, respectively. While this may benefit those who already did not itemize, it may push some into taking the standard deduction. Major gripes here is that

this may reduce the attraction for some to make charitable donations if they can no longer be deducted. It also provides less reward for home ownership.

- The personal exemption has been removed which just means ..... less deductions.

### **Itemized Deduction**

- There is now a cap of \$10k on state & local taxes. This will impact those who live in high tax states such as California and New York. There was a rush at year end for many to consider pre-paying their 2018 taxes.
- Eliminated the ability to deduct Home Equity Loan interest
- Eliminated the miscellaneous deduction box...which includes the ability to deduct investment management and tax preparation fees
- Retroactive to 2017, medical expenses that exceed 7.5% will now be deductible for all, not just those who are 65 and older

### **Happy News for 529 Plans**

- 529 plans can now be used for K-12 education expenses to include private, elementary, middle & high schools. Previously, they were limited to just higher education. No longer will there be a need to use Coverdell Education Savings Accounts which have strict rules regarding contribution and income limits.

### **Lowering of Marginal Tax Brackets & Business Taxes**

- Tax brackets were kept at 7, with the individual marginal rates being decreased until 2025
- Lowers corporate income tax rate permanently to 21%

### **Municipal Bonds**

- Eliminates the ability to issue tax-exempt advanced refunding bonds (pre-res) after December 31, 2017.
- Preserves tax-free private activity bonds and tax-exempt stadium bonds

## Individual Insurance Mandate Repeal

- Repeals requirement from Obama's health law that requires people pay a penalty for lack of health insurance

### Potential Action Items

- Look to consider moving any investment management fees from trust & taxable accounts as there is no longer a tax benefit for them to come from non-retirement accounts
- If you are under 65, look to schedule any expensive medical procedures in 2018
- Consider funding and or using a 529 plan for private school and K-12 education
- Make sure your family and friends retain their health insurance!

Many of these changes will sunset in 2025 (except the corporate income tax deduction) and will not be retroactive to 2017. The medical decrease will be retroactive to 2017.

If you would like us to take a look at how the new tax law impacts your 2018 financial plan or have any questions regarding the changes, please feel free to give me a call or e-mail at [ali@financialinsights.net](mailto:ali@financialinsights.net).

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