



A Note From Harriett:



Our Toys for Tots toy drive was a success!

Thank you to all of you who dropped off/donated a toy. Thanks to the generosity of our clients, neighbors and community we were able to fill a whole Toys for Tots box! We look forward to being a toy drive site for Toys for Tots next year as well.



Financial Planning Newsletter—Winter



IRS Benefit Plan Limits for 2018

Presented by Harriett E. Barnes

On October 19, 2017, the Internal Revenue Service released Notice 2017-64, announcing cost-of-living adjustments (COLAs) that affect contribution limits for retirement plans in 2018. The list below, although not exhaustive, highlights key changes that retirement plan sponsors should be aware of, as well as some limitations that remain unchanged from 2017:

- * The elective deferral limit is increasing from \$18,000 to \$18,500.
- * The aggregate contribution limit for defined contribution plans is increasing from \$54,000 to \$55,000.
- * The annual compensation limit used to calculate contributions is increasing from \$270,000 to \$275,000.
- * The limitation on the annual benefit under a defined benefit plan is increasing from \$215,000 to \$220,000.
- * The dollar limit used in the definition of “key employee” in a top-heavy retirement plan remains unchanged at \$175,000.
- * The dollar limit used in the definition of “highly compensated employee” remains unchanged at \$120,000.

The table below displays the 2017 and 2018 limits for a host of tax breaks:

401(k) Plan Limits for Plan Year	2018 Limit	2017 Limit
401(k) Elective Deferral Limit ¹	\$18,500	\$18,000
Catch-Up Contribution ²	\$6,000	\$6,000
Defined Contribution Dollar Limit	\$55,000	\$54,000
Compensation Limit ³	\$275,000	\$270,000
Highly Compensated Employee Income Limit	\$120,000	\$120,000
Key Employee Officer Limit	\$175,000	\$175,000
Non-401(k) Limits		
403(b) Elective Deferral Limit ¹	\$18,500	\$18,000
Defined Benefit Dollar Limit	\$220,000	\$215,000
457 Employee Deferral Limit	\$18,500	\$18,000
SEP and SIMPLE IRA Limits		
SEP Minimum Compensation	\$600	\$600
SEP Maximum Compensation	\$275,000	\$270,000
SIMPLE Contribution Limit	\$12,500	\$12,500
SIMPLE Catch-Up Contribution ²	\$3,000	\$3,000
IRA and Roth Limits		
IRA and Roth Contribution Limit	\$5,500	\$5,500
Catch-Up Contribution ²	\$1,000	\$1,000

¹Employee deferrals to all 401(k) and 403(b) plans must be aggregated for purposes of this limit.

²Contributors must be age 50 or older during the calendar year.

³All compensation from a single employer (including all members of a controlled group) must be aggregated for purposes of this limit. *This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Investors should consult a tax preparer, professional tax advisor, and/or a lawyer.*

Tax Cuts and Jobs Act of 2017: What Taxpayers Need to Know

Presented by Harriett E. Barnes



On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act of 2017 (the act or TCJA). The legislation makes significant changes to the Internal Revenue Code (IRC), including individual, corporate, and gift and estate taxation.

Individual income tax changes

Under the TCJA, the changes that affect individual income tax are in effect only for tax years 2018–2025.

The act modified the marginal rates for individual income taxation. The revised seven-tier income tax rate schedule for tax years 2018–2025 is reflected in the chart below.

Tax Rate	Single	Married/Jointly	Head of Household	Married/Separately
10%	\$0–\$9,525	\$0–\$19,050	\$0–\$13,600	\$0–\$9,525
12%	\$9,525–\$38,700	\$19,050–\$77,400	\$13,600–\$51,800	\$9,525–\$38,700
22%	\$38,700–\$82,500	\$77,400–\$165,000	\$51,800–\$82,500	\$38,700–\$82,500
24%	\$82,500–\$157,500	\$165,000–\$315,000	\$82,500–\$157,500	\$82,500–\$157,500
32%	\$157,500–\$200,000	\$315,000–\$400,000	\$157,500–\$200,000	\$157,500–\$200,000
35%	\$200,000–\$500,000	\$400,000–\$600,000	\$200,000–\$500,000	\$200,000–\$300,000
37%	Over \$500,000	Over \$600,000	Over \$500,000	Over \$300,000

In addition to the changes made to the tax brackets, many exemptions and deductions for individual income tax have been modified or repealed.

The personal exemption of \$4,150 per taxpayer and dependent has been eliminated.

The standard deduction for individuals has been increased from \$6,500 for individual taxpayers and \$13,000 for married couples who file jointly to \$12,000 for individual taxpayers and \$24,000 for married couples who file jointly. This near doubling of the standard deduction will result in more taxpayers taking this deduction instead of itemizing.

The legislation places limits on several itemized deductions, listed in the table below.

Deduction	Changes Under TCJA
State and local income tax, property tax	All deductions for state and local income tax, as well as property tax, limited to a maximum of \$10,000
Mortgage interest deduction	Debt limitation lowered to \$750,000 for new mortgages taken out after December 15, 2017
Medical expenses	Deductible to the extent they exceed 7.5% of adjusted gross income (AGI), lowered from the previous threshold of 10% of AGI
Moving expenses	No longer deductible at the personal or employer level, except for military
Miscellaneous itemized deductions	Miscellaneous itemized deductions repealed; no longer deductible
Income phase-out for itemizing deductions	No phase-out for itemizing deductions

Miscellaneous individual income tax changes

In addition to the major modifications discussed above, several other changes in the act may affect your financial decisions going forward. These are:

Family tax credits. The child tax credit has been doubled, from \$1,000 to \$2,000, and the refundable portion of that credit is allowable up to \$1,400. The act also grants a new credit of \$500 for other dependents. These will phase out at income limits of \$200,000 (single) and \$400,000 (married).

Estate and gift taxes. Effective January 1, 2018, the individual unified gift and estate tax exemption has been raised to \$11.2 million (up from what was set to be \$5.6 million) and, with portability remaining intact, \$22.4 million for a married couple. The top rate will remain 40 percent. The new rates are set to expire—and return to 2017 levels—at the end of calendar-year 2025.



Cash donations to charity. Under 2017 law, gifts of cash to charity offered a taxpayer the ability to deduct the contribution, up to 50 percent of AGI. The act has increased the limitation to 60 percent of the taxpayer's AGI.

Education planning. The act includes an expansion of 529 savings plans that allows families to save for K-12 expenses, in addition to college expenses. 529 plans will also be able to use qualified distributions for elementary and secondary school expenses, up to \$10,000 per year, per student.

1031 exchanges. As of January 1, 2018, 1031 exchanges have been limited to real property.

Affordable Care Act individual mandate. The act eliminates the penalty imposed under the IRC for individuals who do not maintain individual health care coverage.

Individual alternative minimum tax (AMT). The individual AMT exemption amount has increased to \$70,300 for individual filers and \$109,400 for joint filers. The phaseout for the AMT exemption has increased to \$500,000 for individuals and \$1 million for married couples. With enactment of the act, fewer Americans will be subject to the AMT.

Retirement recharacterizations. Beginning January 1, 2018, the act eliminates the ability for a taxpayer to unwind a Roth conversion and "recharacterize" back to a traditional IRA.

Pass-through business income

Under previous tax law, all pass-through business income was taxed at the individual taxpayer's marginal rate, as is most ordinary income. Under the TCJA, qualified pass-through business income will be addressed in a new IRC Section 199A.

The general rule under the TCJA gives pass-through business entities a maximum deduction of 20 percent of the nonwage allocation of qualified business income (QBI) from the trade or business. But the deduction may be reduced, or even eliminated, when **taxable income** exceeds the following limits:

For individuals: Taxable income over \$157,000

For married couples: Taxable income over \$315,000

When the taxpayer's taxable income exceeds those limitations, the deduction will be the lesser of 20 percent of QBI or the greater of the two amounts produced by running wage and capital tests as follows:

50 percent of W-2 wages paid on behalf of the business; or

The sum of 25 percent of W-2 wages and 2.5 percent of the unadjusted basis of all QBI property (depreciable business property).

Certain service professionals (e.g., attorneys, accountants, financial professionals). If a person's pass-through entity is in a "specified service business," the deduction is reduced pro rata for taxable incomes between \$157,000 and \$207,500 for individual filers and \$315,000 and \$415,000 for married filing jointly. The deduction is disallowed completely if taxable income exceeds \$207,500 for an individual and \$415,000 for married taxpayers filing jointly.

Please note: Additional guidance is anticipated from the IRS or the U.S. Department of the Treasury regarding the pass-through taxation deduction.

Corporate taxation

Although the changes to how individual income is taxed are set to expire at the end of 2025, the corporate tax changes provided for in the TCJA will be permanent. One of the largest tax cuts in the legislation lowers the corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Furthermore, the TCJA completely repeals the corporate AMT. The act also imposes some limitations on certain corporate tax deductions, including those for net operating loss, business interest, and R&D expenditures.

Assess where you are headed

In light of these sweeping changes, 2018 should result in a complete review of your financial snapshots. An overall review of income, assets, and balance sheet is important in order to get a clear picture of how the significant changes to individual income taxation will affect you and your family.

More planning opportunities will continue to arise as the new tax code unfolds. Please reach out to your tax professional, or contact our office, for help navigating these changes.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.



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❄️ Financial Planning Newsletter - Winter ❄️

There is still time to contribute to your IRA for 2017!

As we have so often discussed, when it comes to planning for retirement, the more you save today, the better prepared you'll be tomorrow. That's why I wanted to remind you that there's still time to contribute to an IRA for the 2017 tax year.



The contribution deadline for 2017 is April 17, 2018, excluding extensions. You can contribute up to \$5,500 for 2017 (\$6,500 if you were age 50 by December 31, 2017). Additionally, you can contribute to a traditional IRA, a Roth IRA, or both, as long as your total contributions do not exceed the annual limit. You may also be able to contribute to an IRA for your spouse for 2017, even if your spouse did not have any 2017 income.

If you would like to take advantage of this contribution, please do not hesitate to contact me at 413-256-0677 or by e-mail at hbarnes@hbfinancialgroup.com to discuss your options.

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