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THE TAX CUT AND JOBS ACT OF 2017

Many of our clients have received countless articles, summaries, news broadcasts or emails detailing the specific provisions of the Tax Cut and Jobs Act of 2017. Rather than simply list the changes from current law to the new law, we thought our clients would be more interested in how the new tax law might affect them, but also what Burt Wealth can do to take advantage of the new law with regard to your investment portfolio and financial planning. Therefore, our goal with this memo is to distill some high-level information for our clients so they can begin to understand the impact of the new law on their personal situation.

GENERAL IMPACT OF THE NEW LAW:

Over the past week, many clients have contacted us concerned they will be paying more taxes under the new law when this may not always be the case. It is common to focus solely on the elimination or reduction of popular tax deductions while ignoring other aspects of the new bill, such as the decline in tax rates. This is so because we all have a fairly good understanding of the expenses that have been deductible in the past (state and local income taxes, mortgage interest and real estate taxes) because we often have to write checks for these things. However, we don't carry around the mental math required to recalculate our taxes based on the new law changes so it is impossible to estimate the positive aspects of the new law without actually doing the tax calculation.

To estimate the direct impact on the new law on your individual tax situation, most people may need the assistance of their tax preparer to complete a full analysis. Therefore, to give you a better understanding, in general terms, on how the new tax law might impact you, we have summarized a few articles and studies that will shed some light on this topic.

Below are some articles and studies from two organizations that you may find of interest. The organizations that crank the tax numbers for a living paint a positive picture for the average taxpayer. Two independent think tanks considered to be non-partisan, conclude that most (although not all) taxpayers would owe less tax under the new rules. The ***Tax Policy Center*** (http://www.taxpolicycenter.org/feature/analysis-tax-cuts-and-jobs-act states, "we find that the bill would reduce taxes on average for all income groups" and estimates that 95% of taxpayers will see some savings. ***The Tax Foundation*** has written an excellent and easy to read article (https://taxfoundation.org/final-tax-cuts-and-jobs-act-taxpayer-impacts/) with several case studies that you can relate to your current situation. Their analysis indicates a reduction in tax liability for every scenario they estimated. While it is true that the wealthy may get the largest benefits, most other taxpayers will also receive benefits. As comprehensive financial planners, monitoring taxes is an important aspect of how we add value to our client relationships. With that said, we thought it was prudent to review how we view our investment portfolios and financial planning in light of the final version of the Tax Cuts and Jobs Act of 2017.

WHAT SHOULD YOU DO NOW?

Most investors are wondering whether they should do something to prepare for the new tax rules. Generally, investors need not make significant changes to their investments or financial plans right now. Further, we believe investors should not overreact to changes in the tax law or market movements, especially if they have a long-term strategy and financial plan in place.

REGARDING YOUR *INVESTMENT MANAGEMENT, WE WILL BE REVIEWING YOUR PORTFOLIO IN LIGHT OF:*

- The decline in marginal tax rates makes investment income more attractive and how to best allocate your portfolio
- Capital gains rates are not changing but the tax brackets that dictate the actual level of capital gains will change and thus we will incorporate this in our capital gain and loss harvesting methodology
- Certain types of investments like real estate investment trusts and certain energy investments will receive preferential tax rates so we will review them in light of our current portfolio positions (these types of investments are currently a part of our alternative portfolio sector)
- Qualified dividends retain a preferential tax rate so we will continue our current focus
- Your accounts that pay for your investment advisory fees and determine if changing some of the payments from personal accounts to IRA accounts is a good tax saving opportunity for you
- Plan for the possible sunset of the income tax provisions in 2025 and take advantage of the new provisions while they last

REGARDING YOUR *FINANCIAL PLANNING, HERE IS WHAT WE WILL BE DOING FOR YOU:*

- Adjusting our financial planning software to incorporate the new law into our retirement planning simulations for clients
- Discussing the increased use of charitable donor advised funds for our clients who may wish to “lump” several years of deductions into a single year which may improve deductibility
- Continuing to assist you in identifying the best securities to gift to children or charities
- take a fresh look at our withdrawal strategies during retirement and make adjustments as needed given the new tax law
- Adjusting our estate tax planning as needed given the increased estate tax exemptions under the new law
- Exploring Roth conversions as these may become more attractive given lower tax rates
- Planning for the possible sunset of the estate tax provisions in 2025 and take advantage of the new provisions while they last
- Reviewing the new Section 529 plan provisions (use for elementary and secondary school costs) with you

CONCLUSION:

The impact from The Tax Cuts and Jobs Act will be felt for years to come. There will be plenty of time to adapt to the new tax law changes and develop new tax planning strategies. We are available to answer any general questions you may have about the recent tax law changes, but recommend you rely on the counsel, guidance and expertise of your personal tax advisor for specific questions and tax estimates.