SAMALIN
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Mid-Year Planning: Tax Changes to Factor In

The Tax Cuts and Jobs Act, passed in December of last year, fundamentally changes the federal tax landscape for both individuals and businesses. Many of the provisions in the legislation are permanent, others (including most of the tax cuts that apply to individuals) expire at the end of 2025. Here are some of the significant changes you should factor in to any mid-year tax planning. You should also consider reviewing your situation with a tax professional.

NEW LOWER MARGINAL INCOME TAX RATES

In 2018, there remain seven marginal income tax brackets, but most of the rates have dropped from last year. The new rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Most, but not all, will benefit to some degree from the lower rates. For example, all other things being equal, those filing as single with taxable incomes between approximately $157,000 and $400,000 may actually end up paying tax at a higher top marginal rate than they would have last year. Consider how the new rates will affect you based on your filing status and estimated taxable income.

HIGHER STANDARD DEDUCTION AMOUNTS

Standard deduction amounts are nearly double what they were last year, but personal exemptions (the amount, $4,050 in 2017, that you could deduct for yourself, and potentially your spouse and your dependents) are no longer available. Additional standard deduction amounts allowed for the elderly and the blind remain available for those who qualify. If you're single or married without children, the increase in the standard deduction more than makes up for the loss of personal exemption deductions. If you're a family of four or more, though, the math doesn't work out in your favor.

ITEMIZED DEDUCTIONS — GOOD AND BAD

The overall limit on itemized deductions that applied to higher-income taxpayers is repealed, the income threshold for deducting medical expenses is reduced for 2018, and the income limitations on charitable deductions are eased. That's the good news. The bad news is that the deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area, and miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible. Other deductions affected include:

- **State and local taxes** — Individuals are only able to claim an itemized deduction of up to $10,000 ($5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- **Home mortgage interest deduction** — Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior $1 million limit will continue to apply. No deduction is allowed for interest on home equity loans or lines of credit unless the debt is used to buy, build or substantially improve a principal residence or a second home.

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OTHER IMPORTANT CHANGES

■ **Child tax credit** — The credit has been doubled to $2,000 per qualifying child, refundability has been expanded, and the credit will now be available to many who didn't qualify in the past based on income; there's also a new nonrefundable $500 credit for dependents who aren't qualified children for purposes of the credit.

■ **Alternative minimum tax (AMT)** — The Tax Cuts and Jobs Act significantly narrowed the reach of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.

■ **Roth conversion recharacterizations** — In a permanent change that starts this year, Roth conversions can't be "undone" by recharacterizing the conversion as a traditional IRA contribution by the return due date.

Marriage and Money: Taking a Team Approach to Retirement

Now that it's fairly common for families to have two wage earners, many husbands and wives are accumulating assets in separate employer-sponsored retirement accounts. In 2018, the maximum employee contribution to a 401(k) or 403(b) plan is $18,500 ($24,500 for those age 50 and older), and employers often match contributions up to a set percentage of salary.

But even when most of a married couple's retirement assets reside in different accounts, it's still possible to craft a unified retirement strategy. To make it work, open communication and teamwork are especially important when it comes to saving and investing for retirement.

Retirement for two

Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can only be held in one person's name, although a spouse is typically listed as the beneficiary who would automatically inherit the account upon the original owner's death. Taxable investment accounts, on the other hand, may be held jointly.

Owning and managing separate portfolios allows each spouse to choose investments based on his or her individual risk tolerance. Some couples may prefer to maintain a high level of independence for this reason, especially if one spouse is more comfortable with market volatility than the other.

However, sharing plan information and coordinating investments might help some families build more wealth over time. For example, one spouse's workplace plan may offer a broader selection of investment options, or the offerings in one plan might be somewhat limited. With a joint strategy, both spouses agree on an appropriate asset allocation for their combined savings, and their contributions are invested in a way that takes advantage of each plan's strengths while avoiding any weaknesses.

Asset allocation is a method to help manage investment risk; it does not guarantee a profit or protect against loss.

Spousal IRA opportunity

It can be difficult for a stay-at-home parent who is taking time out of the workforce, or anyone who isn't an active participant in an employer-sponsored plan, to keep his or her retirement savings on track. Fortunately, a working spouse can contribute up to $5,500 to his or her own IRA and up to $5,500 more to a spouse's IRA (in 2018), as long as the couple's combined income exceeds both contributions and they file a joint tax return. An additional $1,000 catch-up contribution can be made for each spouse who is age 50 or older. All other IRA eligibility rules must be met.

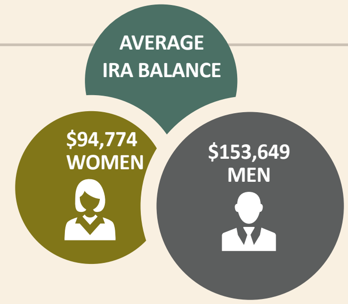
Contributing to the IRA of a nonworking spouse offers married couples a chance to double up on retirement savings and might also provide a larger tax deduction than contributing to a single IRA. For married couples filing jointly, the ability to deduct contributions to the IRA of an active participant in an employer-sponsored plan is phased out if their modified adjusted gross income (MAGI) is between $101,000 and $121,000 (in 2018). There are higher phaseout limits when the contribution is being made to the IRA of a nonparticipating spouse: MAGI between $189,000 and $199,000 (in 2018).

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution to the account of a nonparticipating spouse. You can make IRA contributions for the 2018 tax year up until April 15, 2019.

Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.

Open communication and teamwork are especially important when it comes to saving and investing for retirement.

SAVINGS GAP



Despite career gains, women tend to retire with fewer assets than men.

Source: Employee Benefit Research Institute, 2017 (2014 data)

DIVIDEND INVESTING: SMALL PAYMENTS CAN BOOST RETURNS

Owning shares of stock or stock funds might increase the value of your portfolio in one of two fundamental ways: capital appreciation (i.e., price increases) and dividend payments. Of the two, capital appreciation carries the greatest potential for return, but it also carries the greatest potential for loss. And any gains or losses are only reaped when you sell your shares.

By contrast, dividends typically offer more consistent modest returns that are paid while you hold your shares. For this reason, dividends have long been popular with retirees and others who are looking for regular income. But focusing on dividends can be appropriate for almost any investor, especially if dividends are reinvested to purchase additional shares. Although reinvesting dividends from individual stocks may not be cost-effective, mutual funds and exchange-traded funds (ETFs) generally offer an option to reinvest dividends and/or capital gains.

GROWTH AND VOLATILITY

In general, more established companies tend to pay dividends, and these companies may not have as much growth potential as newer companies that plow all of their earnings back into the company. Even so, dividends can boost total return. A 2015 study found that dividends had accounted for about one-third of the total return of the S&P 500 index since 1956, with the other two-thirds from capital appreciation. In the fourth quarter of 2017, more than 80% of S&P 500 stocks paid a dividend with an average yield of 1.87% for the index as a whole and 2.24% for dividend-paying stocks. Many mid-size and smaller companies also paid dividends.1

Because dividends are by definition a positive return, even during a down market, dividend-paying stocks may be less volatile than non-dividend payers. However, dividend stocks tend to be more sensitive to rising interest rates; investors looking for income may move away from stocks if less risky fixed-income investments offer comparable yields.

QUARTERLY PAYMENTS

Dividends are typically paid quarterly in the form of cash or stock. The amount is set by the company's board of directors and can be changed at any time. Dividends can be expressed as the dollar amount paid on each share or as yield — the annual dividend income per share divided by the current market price. When the share price falls, the yield rises (assuming dividend payments remain the same), enabling investors who reinvest their dividends to buy more shares that have the potential to grow as market performance improves.

Investing in dividends is a long-term commitment. In exchange for less volatility and more stable returns, investors should be prepared for periods where dividend payers drag down rather than boost an equity portfolio. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares. Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Can I Convert My Traditional IRA to a ROTH IRA in 2018?

If you've been thinking about converting your traditional IRA to a Roth IRA, this year may be an appropriate time to do so. Because federal income tax rates were reduced by the Tax Cuts and Jobs Act passed in December 2017, converting your IRA may now be "cheaper" than in past years.

Anyone can convert a traditional IRA to a Roth IRA in 2018. There are no income limits or restrictions based on tax filing status. You generally have to include the amount you convert in your gross income for the year of conversion, but any nondeductible contributions you've made to your traditional IRA won't be taxed when you convert. (You can also convert SEP IRAs, and SIMPLE IRAs that are at least two years old, to Roth IRAs.)

Converting is easy. You simply notify your existing IRA provider that you want to convert all or part of your traditional IRA to a Roth IRA, and they'll provide you with the necessary paperwork to complete. You can also transfer or roll your traditional IRA assets over to a new IRA provider and complete the conversion there. If you prefer, you can instead contact the trustee/custodian of your traditional IRA, have the funds in your traditional IRA distributed to you, and then roll those funds over to your new Roth IRA within 60 days of the distribution. The income tax consequences are the same regardless of the method you choose.[1]

The conversion rules can also be used to otherwise be able to make a regular annual contribution because of the income limits. (In 2018, you can't contribute to a Roth IRA if you earn $199,000 or more and are married filing jointly, or if you're single and earn $135,000 or more.) You can simply make a nondeductible contribution to a traditional IRA and then convert that traditional IRA to a Roth IRA. (Keep in mind, however, that you'll need to aggregate the value of all your traditional IRAs when you calculate the tax on the conversion.) You can contribute up to $5,500 to all IRAs combined in 2018, or $6,500 if you're 50 or older.

[1] If you choose to receive the funds first and don't transfer the entire amount, a 10% early withdrawal penalty may apply to amounts not converted.

HOW HAS TAX REFORM AFFECTED THE GENERATION-SKIPPING TRANSFER TAX?

The Tax Cuts and Jobs Act, signed into law in December 2017, doubled the federal generation-skipping transfer (GST) tax exemption to $11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exemption is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, the federal GST tax remains the same.

The federal GST tax generally applies if you transfer property to a skip person. A skip person is someone who is two or more generations younger than you (for example, a grandchild). The GST tax may apply in addition to any gift or estate tax. Similar to the gift tax provisions, annual exclusions (up to $15,000 per recipient in 2018) and exclusions for qualifying educational and medical expenses are available for GST tax. You can protect up to $11.18 million (in 2018) with the GST tax exemption. Transfers in excess of the GST tax exemption are generally taxed at 40%.

A GST generally occurs on a transfer that is subject to federal gift or estate tax and made to a skip person, or a transfer to a trust if all the beneficiaries with an interest in the trust are skip persons. A GST may also occur on certain distributions from trusts to skip persons. Additionally, a GST may occur when an interest in a trust terminates, and skip persons then hold all interests in the trust.

Unlike with the gift and estate tax applicable exclusion amount, the GST tax exemption is not portable between spouses. The estate of a deceased spouse cannot transfer any unused GST tax exemption to the surviving spouse.

Note: An early version of the legislation proposed approximately doubling the gift and estate tax basic exclusion amount and the GST tax exemption for 2018 to 2024. After 2024, the estate tax and the GST tax would have beenrepealed. The gift tax would not have been repealed, although the top gift tax rate would have been reduced from 40% to 35% after 2024. However, the only provision that made it into the final legislation was the doubling of the gift and estate tax basic exclusion amount and the GST tax exemption for 2018 to 2025.

Can I Undo My ROTH IRA Conversion in 2018?

The answer is: It depends.

When you convert a traditional IRA to a Roth IRA, you include the value of your traditional IRA, reduced by any nondeductible contributions you've made, in your income for federal tax purposes in the year of the conversion. For conversions prior to 2018, if you subsequently decided to "recharacterize" or undo the conversion for any reason — e.g., the value of your IRA assets declined after the conversion, resulting in a bad tax deal — the IRS would permit you to do so, provided the recharacterization took place in a timely fashion.

For example, assume you converted a fully taxable traditional IRA worth $50,000 to a Roth IRA in 2016. You would have been required to include $50,000 in income on your 2016 federal income tax return. But shortly after the conversion, the value of your Roth IRA declined to $40,000. Suddenly you were faced with the proposition of paying taxes on $50,000, while your Roth IRA was worth only $40,000. Fortunately, you had until your tax return due date (including extensions) to undo all or part of a conversion. So in this example, you would have had until October 15, 2017, to recharacterize the conversion.

Unfortunately, the Tax Cuts and Jobs Act passed in 2017 eliminated the option to recharacterize a Roth conversion, with one exception: If you converted your Roth IRA in 2017 and have since changed your mind, you have until your filing deadline, including extensions (or until October 15, 2018), to recharacterize.

When you recharacterize, you need to withdraw the amount you originally converted, plus any earnings, out of the Roth IRA and transfer it back to a traditional IRA.

If you already paid your taxes for 2017, you'll need to file an amended return to obtain a refund for any taxes paid on the conversion. An amended return can generally be filed as late as three years after the original return was filed.

Undoing a Roth conversion can be complicated, so it's probably a good idea to consult your tax professional before taking action.

Protect Your Heirs by Naming a Trust as IRA Beneficiary

Often, tax-qualified retirement accounts such as IRAs make up a significant part of one's estate. Naming beneficiaries of an IRA can be an important part of an estate plan. One option is designating a trust as the IRA beneficiary. Caution: This discussion applies to traditional IRAs, not to Roth IRAs. Special considerations apply to beneficiary designations for Roth IRAs.

WHY USE A TRUST?

Here are the most common reasons for designating a trust as an IRA beneficiary:

- Generally, inherited IRAs are not protected from the IRA beneficiary's creditors. However, IRA funds left to a properly drafted trust may offer considerable protection against the creditors of trust beneficiaries.
- When you designate one or more individuals as beneficiary of your IRA, those beneficiaries are generally free to do whatever they want with the inherited IRA funds, after your death. But if you set up a trust for the benefit of your intended beneficiaries and name that trust as beneficiary of your IRA, you can retain some control over the funds after your death. Your intended beneficiaries will receive distributions according to your wishes as spelled out in the trust document.
- Through use of a trust as IRA beneficiary, you may "stretch" IRA payments over the life times of more than one generation of beneficiaries. Payments to IRA trust beneficiaries must comply with distribution rules depending on the type of IRA plan.

WHAT IS A TRUST?

A trust is a legal entity that you can set up and use to hold property for the benefit of one or more individuals (the trust beneficiaries). Every trust has one or more trustees charged with the responsibility of managing the trust property and distributing trust income and/or principal to the trust beneficiaries according to the terms of the trust agreement. If the trust meets certain requirements, the beneficiaries of the trust can be treated as the designated beneficiaries of your IRA for purposes of calculating the distributions that must be taken following your death.

SPECIAL RULES APPLY TO TRUSTS AS IRA BENEFICIARIES

Certain special requirements must be met in order for an underlying beneficiary of a trust to qualify as a designated beneficiary of an IRA. The beneficiaries of a trust can be designated beneficiaries under the IRS distribution rules only if the following four trust requirements are met in a timely manner:

- The trust beneficiaries must be individuals clearly identifiable from the trust document as designated beneficiaries as of September 30 following the year of the IRA owner's death.
- The trust must be valid under state law. A trust that would be valid under state law, except for the fact that the trust lacks a trust "corpus" or principal, will qualify.
- The trust must be irrevocable, or by its terms become irrevocable upon the death of the IRA owner.
- The trust document, all amendments, and the list of trust beneficiaries must be provided to the IRA custodian or plan administrator by October 31 following the year of the IRA owner's death. An exception to this rule arises when the sole trust beneficiary is the IRA owner's surviving spouse who is 10 years younger than the IRA owner, and the IRA owner wants to base lifetime required minimum distributions (RMDs) on joint and survivor life expectancy. In this case, trust documentation should be provided before lifetime RMDs begin.

Note: Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn by the IRA owner prior to age 59½, with certain exceptions as outlined by the IRS. Disadvantages of naming a trust as IRA beneficiary

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations.You should consider the counsel of an experienced estate planning professional and your legal and tax advisers before implementing such strategies.

DISADVANTAGES OF NAMING A TRUST AS IRA BENEFICIARY

If you name your surviving spouse as the trust beneficiary of your IRA rather than naming your spouse as a direct beneficiary, certain post-death options that would otherwise be available to your spouse may be limited or unavailable. Naming your spouse as primary beneficiary of your IRA provides greater options and maximum flexibility in terms of post-death distribution planning.

Setting up a trust can be expensive, and maintaining it from year to year can be burdensome and complicated. So the cost of establishing the trust and the effort involved in properly administering the trust should be weighed against the perceived advantages of using a trust as an IRA beneficiary. In addition, if the trust is not properly drafted, you may be treated as if you died without a designate beneficiary for your IRA. That would likely shorten the payout period for required post-death distributions.

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SICounsel North Fork Office Opening, Headed by New Financial Advisor

Samalin Investment Counsel is pleased to announce the opening of our North Fork Office, headed by new financial advisor Matthew P. McKee, CFA. Matthew is an investment professional with a unique combination of experiences in both asset management and healthcare finance. His 14 years of professional experience in finance includes working for Gabelli Funds, Farallon Capital Management, and one of the nation's largest hospitals. He has also worked with a healthcare consulting firm, focusing on practice valuation opinions and advice related to businesses, physician compensation arrangements, and machinery and equipment.

Matthew graduated with a BA in Economics from Hamilton College, an MBA from Vanderbilt University, is a CFA Charterholder, and an Adjunct Professor in Economics at SUNY Suffolk. He also is a wine enthusiast, studying for Level II of the Court of Master Sommelier program. Matthew lives in Mattituck where he spends his free time with his family, playing golf, tennis, and enjoying the local vineyards. *We are thrilled to have Matthew on board.*