THE PROSPERITY® CONSULTING GROUP, LLC
A WEALTH MANAGEMENT COMPANY

Spring 2018
www.prosperityconsult.com

THE WEALTH ADVISOR

A Guide To The New Rules On Tax Deductions In 2018

Uncle Sam giveth, and Uncle Sam taketh away. The new federal tax code, which went into effect in 2018 and affects the return you'll file in spring 2019, lowers taxes by expanding some deductions, but restricts or outright eliminates others.

Deductions lower your taxable income so you pay less tax. Here's how deducting items from your income were expanded, restricted, or eliminated.

EXPANDED DEDUCTIONS

Standard deduction. The standard deduction is the amount you can subtract from your taxable income if you don't itemize — that is, individually deduct items like mortgage interest and charitable donations. Nearly doubling the standard deduction to $24,000 for joint filers and $12,000 for singles pushes it up from $12,700 and $6,350, respectively. Fewer than half of taxpayers who itemized their 2017 return are expected to itemize their 2018 return. If you file using the standard deduction, preparing your return will be much simpler. If the standard deduction is less than the total of your itemized deductions, you'll still want to file by itemizing, subject to the rules below.

Medical expenses. If you itemize deductions, medical expense deductions will be more generous. For tax years 2017 and 2018, medical outlays in excess of 7.5% of your adjusted gross income are deductible. Starting in 2019, the threshold rises to the previous level of 10%. Congress is widely expected to consider extending the 7.5% threshold or making it permanent.

Alternative minimum tax. This very unpopular parallel tax system has been reined in and will zap fewer Americans in 2018. The AMT started in 1982 as an effort to reduce loopholes open to ultra-high-income earners, but its net gradually spread when it was indexed for inflation starting in in 2013. Under the AMT, the standard deduction and itemized deductions, including state income taxes, are lost. With the new law, your exemption — the amount you can subtract from your AMT liability — is much larger. Previously, $54,300 was exempt for a single-filer and $84,500 for a married couple filing jointly. Respectively, the exemptions increased by almost a third, to $70,300 and $109,400.

Child tax credit. This actually is not a deduction against your income. It's a credit on your tax bill. A credit reduces your tax bill dollar for dollar. The credit for children under age 17 was raised to $2,000 from $1,000.

RESTRICTED DEDUCTIONS

State and local taxes. Lawmakers placed a $10,000 cap per return on deductions for state and local taxes (SALT). Till now, the amount you could

(Continued on page 4)

Upcoming Medicare Seminar

As you age, health insurance costs become an increasing concern. Medicare coverage is a benefit for those age 65 and over, but it is often confusing.

Medicare is the federal health insurance plan for individuals 65 and older. It is also for people under 65 who receive Social Security Disability Insurance, or under 65 who have End-Stage Renal Disease. Medicare is partly funded by Social Security and Medicare taxes that you pay on your income, through premiums and through the federal budget.

Join us for a seminar on May 23, 2018 to learn more about Medicare. We will review such topics as what Medicare covers and doesn't cover, Open Enrollment, changing carriers, and what happens when you and your spouse don't turn 65 at the same time.

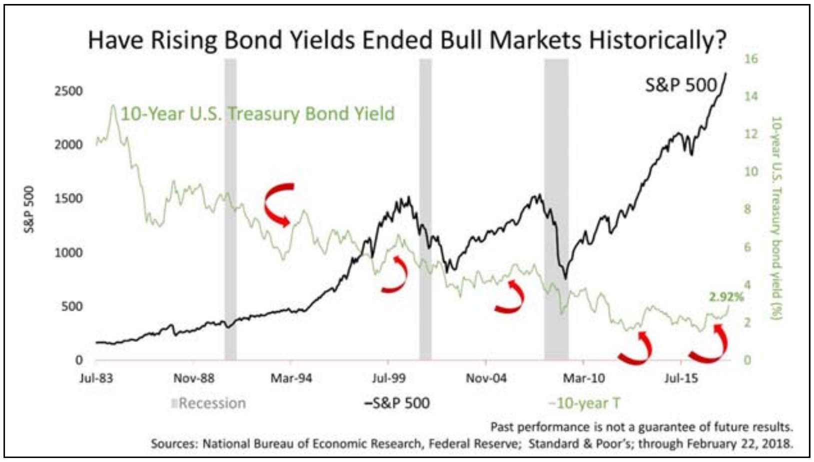
For more information and to RSVP to our seminar, please go to:

https://www.prosperityconsult.com/events/

The Prosperity Consulting Group, LLC

Understanding Economic Fundamentals

At 105-months-old, this is the second-longest economic cycle in post-World War II America. For the last couple of years, a new phase of the expansion marked by rising interest rates began. Shifting fundamentals underpinning the economy can cause jitters in investment markets or spark changes in sentiment. In fact, the most recent correction — a loss of about 12% — was caused by fears of rising interest rates and inflation. So, let's set the record straight.



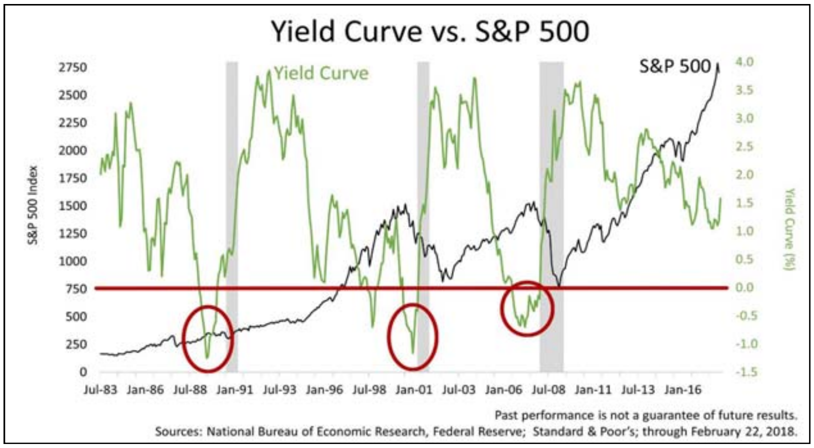
Past performance is not a guarantee of future results.
Sources: National Bureau of Economic Research, Federal Reserve; Standard & Poor's; through February 22, 2018.

While no one can predict the stock market's near-term ups and downs, what we do know is that history shows rising rates are not bad for stocks. Actually, rising bond yields have often coincided with bull markets in stocks. The red arrows point to five periods since the 1990s when the yield on the 10-year U.S. Treasury bond rose sharply and stock prices rose at the same time.

A more reliable economic and financial indicator is the yield curve — the difference between long-term bond yields and short-term interest rates. When the difference between the yield on 10-year U.S. Treasury Bond and the 30-Day U.S. Treasury Bill is more than zero, an expansion could continue just fine.

However, when the yield curve is inverted — when a 30-Day Treasury yields more than a 10-year Treasury — that has been bad for the economy and stocks. Before each of the last three recessions, the yield curve went into negative territory.

Currently, the yield curve isn't near inversion. It's not signaling an end to the eight-and-a-half-year expansion and bull market. This 105-month old economic expansion is approaching the length of the longest expansion, the 120-month cycle in the 1990s, and it's still got legs. Of course, indicators are not a guarantee and must be considered in the context of history and your personal situation. But the yield curve is key to watch as this expansion nears the 120-month longest-ever cycle in the 1990s. ●



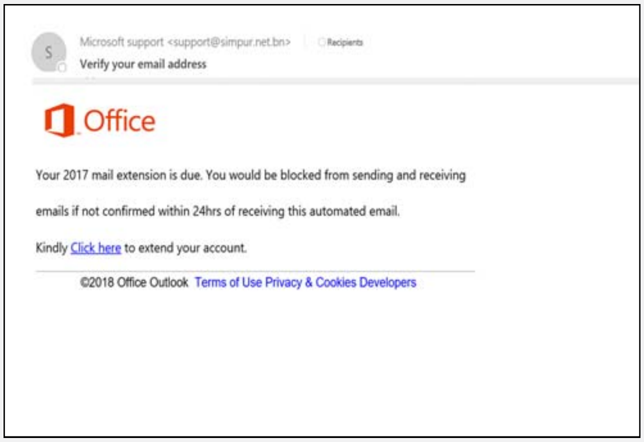
Past performance is not a guarantee of future results.
Sources: National Bureau of Economic Research, Federal Reserve; Standard & Poor's; through February 22, 2018.

Six Tips To Avoid Phishing Scams

"Fake news" has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing, emails diabolically aimed to trick you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool people into revealing passwords, credit card numbers, contacts, emails, internet accounts, and your most personal digital data. It's rampant. Whether you're using a smartphone, tablet, or computer, here are some tips for protecting yourself:

Mistakes. Phishing emails often are generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. The phishing email from Office uses an improper style in "24hrs" and the capitalization of the phrase, "Kindly Click here" should arouse suspicion. When you look at this email's bottom line, the copyright is "Office Outlook." The logo is off. The product name is Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use Privacy & Cookies Developers make sense? It's a hint that this is a fake.



Reply email address. In this

5 Estate Planning Steps To Benefit Your Elders

Estate planning normally involves strategies to preserve wealth for a family's younger generation. But it may also involve elderly relatives—your parents and in-laws or maybe an aunt or an uncle—who could use your assistance. Indeed, this older generation might need your help even more than your offspring who are already making their way in the world.

Consider these five steps to help your older relatives.

1. Have "the talk." As difficult as it can be to sit down with a parent to talk about money and end-of-life decision-making, there's really no alternative to having a candid discussion of these sensitive matters. Your mom and dad may not like what you have to say, but if you start by really listening, giving them the opportunity to provide their point of view, it could launch a productive discussion. Try to address tough issues such as the possibility of relocating to an assisted-living facility or a nursing home, and don't be surprised if things get heated and emotional. Including other family members, such as your siblings, in this discussion will also be helpful, and whenever possible, have the family meetings in person rather than over the phone.

2. Create a contact list. You've probably already done this for yourself, but compiling all of the names, addresses, phone numbers, and email addresses of crucial contacts for your older relatives can be particularly crucial. These could include financial advisors, attorneys, accountants, insurance agents, physicians, and dentists. These days, creating a digital version of the list and storing it on multiple computers makes the most sense.

3. Gather financial information. Along with a contact list, information about the relative's financial affairs and investment holdings is also essential. You'll want to know about bank and investment accounts, 401(k) or other retirement plan accounts and IRAs, life insurance policies, etc. Note current balances, account numbers, passwords, and information on Social Security benefits. You may find out that your relative has more assets than you'd thought. Use this information to formulate a plan for the future.

4. Create the necessary documents. Once everyone agrees on how to move forward, you may need to complement a will or other existing legal documents with new ones. And those your relative has may need to be revised or updated. Such documents may include:

- A will: The centerpiece of an estate plan controls how most worldly possessions—a house, cars, jewelry—will be distributed. A will also specifies an executor of the estate. This might be you, another relative, or a professional you trust.
- Power of attorney: This document authorizes someone to act on behalf of the elderly person. The most common version is a durable power of attorney that will remain in effect if the person is incapacitated. This is a vital component of most estate plans.
- Living trust: A living trust can serve as a supplement to a will. The assets transferred to a living trust don't have to go through the probate process that may be required for possessions transferred through a will and that can be drawn out and expensive. In addition, assets in a living trust are shielded from public inspection.
- Living will/health care directives: These documents provide guidance for end-of-life decisions. You'll want to make sure your relative's doctors and others also have copies so they can act according to your loved one's wishes.

Finally, don't forget about beneficiary designations for retirement plans, IRAs, and life insurance policies—they supersede provisions in a will and are important to keep up to date.

5. Look for ways to minimize estate and gift taxes. Assets transferred to relatives or friends are shielded from federal estate and gift taxes both by unlimited marital deduction for gifts to spouses and a unified estate and gift tax exemption of $11.2 million in 2018 covering transfers to anyone who's not a spouse. Your older relative can also make yearly gifts of as much as $15,000 to multiple recipients.

Estate planning for an elderly relative will inevitably be intertwined with your own plan, so don't do things in a vacuum. Your professional financial advisor can steer you in the right direction. ●

phishing email, the reply address at the top left says "Microsoft support," but if you look closer, the reply email address is "support@simpur.net.bn" and that is not a Microsoft address. The "bn" suffix is the internet country code for Brunei, and that's another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email address is to double click on it and look at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it's fake.

Links. Don't click on links in a suspicious email without being deliberate. The link could be a malicious website. Right click on the link and check its properties and see if the link goes to the company.

Slow down. The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you're in a rush, and that's perhaps the reason why people become ensnared by phishing emails.

Verify before you trust. Trust but verify works for some things but not with internet security. First verify and then you can trust.

Secure Software. Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●

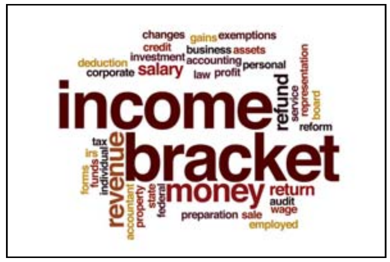
New Deduction Rules For Business Owners

If you are a small business owner, Washington, D.C. has changed tax rules to lower your burden but the new rules are fairly complex. Many small businesses, and some that aren't so small, are "pass-through companies," tax-jargon that means the entity's net income isn't taxed at the corporate level but flows straight to their owners' personal returns. That income is taxed at personal income tax rates, as opposed to corporate rates that are generally lower.

The new tax law, though, has a valuable deduction that evens things out for pass-throughs, although the accounting gymnastics make this anything other than simple. "The size of the deduction varies, depending on the nature of the business activity and the total income of its owner," says Howard Gleckman, a senior fellow at the Tax Policy Center. "It may also depend on how much the business pays its employees and how much property it owns."

Under the new tax law, the top personal rate drops to 37% from 39.6%, with similar reductions in brackets below the highest level. Yet most U.S. businesses are classified as C corporations, which means these companies are taxed separately from their owners. The new tax law lowers the federal tax for C corps to 21% from 35%.

To balance out the difference, Congress allowed pass-throughs — limited liability companies (LLCs), S corps, partnerships and the like — a 20% deduction on their net income. The effect, for those in the top tax bracket, is to lower an owner's rate to 29.6% from 37%. True, 29.6% is higher than 21%, but owners of C corps, meaning shareholders, pay a tax on dividends they receive, usually 15%. So that comes closer to parity with the pass-throughs.



To prevent those part-time jobs into pass-through entities, lawmakers limited the new rules. So, you can't suddenly claim you are a consultant and create a sole proprietorship with the intent of grabbing a tax break.

Owners of service businesses — doctors, lawyers, and consultants — are limited in what they can deduct. Service businesses, according to the tax law, may count as their principal asset the "reputation or skill" of the owners and employees, while manufacturers may not.

In addition, Congress inserted income limits on the deductions that affect all pass-throughs, whether or not they're a service business. The 20% deduction is confined to income of $157,500 for single-filers and $315,000 for married couples. For service businesses, the deduction is phased out progressively in excess of those levels and eliminated entirely when total taxable income is $207,500 for singles or $415,000 for couples filing jointly.

For other types of businesses, the deductions over those thresholds are limited to the greater of 50% of paid wages or 25% of wages plus 2.5% of the business' tangible depreciable property.

The pass-through rules are a big boon for real estate operators, whose properties usually are LLCs. Further, if every property in a real estate owner's portfolio, say an office building or a shopping mall, is worth a large amount, the deductions can be sizable. For example, on a shopping mall worth $5 million, 2.5% of its value is $125,000. That's quite a deduction. ●

Tax Deductions In 2018

(Continued from page 1)

deduct for SALT levies was unlimited. If you live in a place with high state and local taxes and home prices, you're hit hard. If you earn more than $100,000 in adjusted gross income and live in California, Connecticut, Maryland, New Jersey, New York or Oregon, you're very likely to see a material hike in your annual federal tax liability for at least the next decade.

Mortgage interest. You can continue to deduct this interest for first and second homes. The change: For mortgages dated after Dec. 14, 2017, only the interest on the first $750,000 of debt is deductible. Before that date, the $1 million ceiling still applies. In places where home prices and, thus, mortgages, are low, that is not as much of a concern. In high-price locales, it is.

Home equity interest. You no longer can deduct interest paid on home equity loans, unless it is used to improve the dwelling. Many people use such loans, which are secured by their homes, to pay for college tuition or new cars. If a home equity loans and the mortgage totals more than $750,000, the amount over that limit can't be deducted.

ELIMINATED DEDUCTIONS

Personal exemption. Exemptions, which lowered your income by $4,050 per person — usually family members — is gone. For some families with children over 17, who can't take advantage of the expanded tax credit, the elimination of the personal exemption will be a net loss.

Alimony. For divorce and separation agreements made after 2018, alimony payments will no longer be deductible. The deduction is helpful to a paying ex-spouse who is short on funds.

Casualty and theft losses. If your house burned down or a crook took your wallet, you could deduct the loss not covered by insurance to the extent it exceeded 10% of your income. Under the new law, only casualty losses suffered in a natural disaster declared by the president are deductible.

Job expenses. Continuing education, medical tests and licensing fees previously were write-offs. Not anymore.

Moving expenses. Before, you could deduct these if you moved to start a new job and it was a good distance (that varies by circumstances, but typically meant 50 miles away) from your old home. Now, that is gone, unless you are in the military.

Tax prep. Depending on the complexity of the return, these fees can amount to more than $500. Uncle Sam no longer will let you deduct them, though. ●