What You Need to Know About Your Taxes

Traditional & Roth IRAs

Estate Tax

Form 1040

Gift Tax

2018 Tax Changes
Truepoint at a Glance

A legacy of independence

Founded 1990
One of the region’s first fee-only firms

Assets under management
$3.0 billion
as of 9.30.18

Clients in
39 states
36% outside Ohio

100% employee-owned
Client-to-employee ratio of
19:1
Advantages of Integration

Truepoint integrates multiple services under one roof with specialized teams collaborating to optimize our clients’ finances and simplify their lives.
Truepoint Team

While many in our industry talk about “team,” very few have committed to the depth of our resources and continuous collaboration.

Certified Financial Planners® (CFP)
Masters Degrees
Certified Public Accountants (CPA)
Chartered Financial Analysts (CFA)
Juris Doctor (JD)
Certified Trust And Financial Advisors (CTFA)
Chartered Alternative Investment Analyst (CAIA)
2018 Tax Cuts & Jobs Act
Overview of Changes
New 1040 Layout

- Form 1040 has been SIMPLIFIED (??)
  - FROM 2 pages Total
  - TO 2 postcard size pages + 6 new schedules.
  - BUT the flow of the return is still the same

Income
- Adjustments
  = Adjusted Gross Income (AGI)

AGI
- Standard or Itemized Deductions
  = Taxable Income

Taxable Income
- Tax Rate
  = Tax
- Credits
  = Net Tax
## New Tax Tables

- New rate tables are broader and lower than previous tables
- Highest marginal rate is down from 39.6% to 37%

<table>
<thead>
<tr>
<th>2018 Tax Rate</th>
<th>Single</th>
<th>Married Filing Joint</th>
<th>Married Filing Separate</th>
<th>Head of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $9,525</td>
<td>$0 - $19,050</td>
<td>$0 - $9,525</td>
<td>$0 - $13,600</td>
</tr>
<tr>
<td>12%</td>
<td>$9,526 - $38,700</td>
<td>$19,051 - $77,400</td>
<td>$9,526 - $38,700</td>
<td>$13,601 - $51,800</td>
</tr>
<tr>
<td>22%</td>
<td>$38,701 - $82,500</td>
<td>$77,401 - $165,000</td>
<td>$38,701 - $82,500</td>
<td>$51,801 - $82,500</td>
</tr>
<tr>
<td>24%</td>
<td>$82,501 - $157,500</td>
<td>$165,001 - $315,000</td>
<td>$82,501 - $157,500</td>
<td>$82,501 - $157,500</td>
</tr>
<tr>
<td>32%</td>
<td>$157,501 - $200,000</td>
<td>$315,001 - $400,000</td>
<td>$157,501 - $200,000</td>
<td>$157,501 - $200,000</td>
</tr>
<tr>
<td>35%</td>
<td>$200,001 - $500,000</td>
<td>$400,001 - $600,000</td>
<td>$200,001 - $300,000</td>
<td>$200,001 - $500,000</td>
</tr>
<tr>
<td>37%</td>
<td>Over $500,001</td>
<td>Over $601,000</td>
<td>Over $300,001</td>
<td>Over $500,001</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2017 Tax Rate</th>
<th>Single</th>
<th>Married Filing Joint</th>
<th>Married Filing Separate</th>
<th>Head of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $9,325</td>
<td>$0 - $18,650</td>
<td>$0 - $9,325</td>
<td>$0 - $13,350</td>
</tr>
<tr>
<td>15%</td>
<td>$9,326 - $37,950</td>
<td>$18,651 - $75,900</td>
<td>$9,326 - $37,950</td>
<td>$13,351 - $50,800</td>
</tr>
<tr>
<td>25%</td>
<td>$37,951 - $91,900</td>
<td>$75,901 - $153,100</td>
<td>$37,951 - $76,500</td>
<td>$50,801 - $131,200</td>
</tr>
<tr>
<td>28%</td>
<td>$91,901 - $191,650</td>
<td>$153,101 - $233,350</td>
<td>$76,551 - $116,675</td>
<td>$131,201 - $212,500</td>
</tr>
<tr>
<td>35%</td>
<td>$416,701 - $418,400</td>
<td>$416,701 - $470,700</td>
<td>$308,351 - $235,350</td>
<td>$416,701 - $444,550</td>
</tr>
<tr>
<td>39.6%</td>
<td>Over $418,401</td>
<td>Over $470,701</td>
<td>Over $235,351</td>
<td>Over $444,551</td>
</tr>
</tbody>
</table>
## New Standard Deduction/Exemptions Eliminated

- Standard deduction increased for taxpayers who are blind or age 65 or older (+ $1,600)
- $4,150 personal exemption has been eliminated

<table>
<thead>
<tr>
<th>Standard Deduction Amounts</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single and Married Filing Separate</td>
<td>$6,350</td>
<td>$12,000</td>
</tr>
<tr>
<td>Married Filing Joint and Qualified Widower</td>
<td>$12,700</td>
<td>$24,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$9,350</td>
<td>$18,000</td>
</tr>
</tbody>
</table>
Itemized Deductions

**Medical Expenses** – deductible to the extent they exceed 7.5% of your AGI (10% for ‘19 and beyond)

**State and Local Taxes** (includes property tax) – capped at $10,000

**Mortgage Interest** – still deductible; LOC interest is no longer deductible unless it relates to home improvement/acquisition indebtedness

**Casualty and Theft Losses** – no longer deductible except federally declared disaster area

**Misc. Deductions** – no longer deductible (tax prep fees, advisory fees, unreimbursed employee expenses)

**Charitable Deductions** – still deductible
Charitable Donations - Planning

**Bunching:** Alternate years for charitable giving – accelerating deductions in one year and taking standard deduction the next

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**Planning Charitable Contributions to Maximize Deductions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Charitable Contributions</th>
<th>Mortgage Interest</th>
<th>State and local taxes</th>
<th>Total Deductions over 2 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$7,000</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$22,000</td>
</tr>
<tr>
<td>2019</td>
<td>$7,000</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$22,000</td>
</tr>
<tr>
<td>2018</td>
<td>$14,000</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$39,000</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td>$24,000</td>
</tr>
</tbody>
</table>

Total Deductions over 2 years:
- $48,000
- $53,000

Standard Deduction For Married Filing Jointly $24,000
Charitable Deductions – Planning (continued)

- Donor Advised Fund – can fund and immediately take a deduction, but gift over time.
- Charitable Stock Donation – donate LT appreciated capital property – you get to deduct the FMV on the date of donation as well as eliminate any capital gains tax that would have been paid on the appreciated stock

<table>
<thead>
<tr>
<th></th>
<th>Donate Appreciated Securities</th>
<th>Donate Cash</th>
<th>Sell Securities and Donate Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable Deduction</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Ordinary Income Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Savings</td>
<td>$3,500</td>
<td>$3,500</td>
<td>$3,500</td>
</tr>
<tr>
<td>Capital Gains Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saved (Paid)</td>
<td>$1,200</td>
<td>N/A</td>
<td>($1,200)</td>
</tr>
<tr>
<td>Net Tax Savings</td>
<td>$4,700</td>
<td>$3,500</td>
<td>$2,300</td>
</tr>
</tbody>
</table>
Other Changes

- **Alternative Minimum Tax** – far fewer people will now be in AMT
  - AMT adjustments minimized due to changes in itemized deductions
  - AMT exemptions have increased from $54,300 to $70,300 for single and head of household filers and from $84,500 to $109,400 for joint filers
  - Phaseouts for exemptions were increased from $120,700 to $500,000 for single filers and $160,900 to $1,000,000 for joint filers

- **Qualified Business Income Deduction** - Business owners may qualify for a 20% deduction on their qualifying business income.

- **Credits**
  - Child tax credit increased from $1,000 to $2,000
  - Energy efficiency credits extended for ‘18 and ‘19
IRA Basics and Planning Opportunities
Individual Retirement Account (IRA) Basics

- Traditional and Roth IRAs
- Can contribute up to $6,000 annually (or $7,000 if age 50 or older)
- You or your spouse must have earned income to contribute

- Deadline to contribute is April 15th of the following year (4/15/2019 for the 2018 tax year)
- Can begin taking distributions at age 59½
Traditional IRAs: Important Ideas

• Long-term, tax-deferred growth

• Deductible contribution
  – Adjusted Gross Income (AGI) limits

• Non-deductible contribution
  – AGI is too high to qualify for a deductible contribution

• Form 8606 tracks your non-deductible portion

• Cannot contribute past age 70 ½

• Required Minimum Distributions (RMDs) begin at 70 ½

• Federal and state taxes can generally be withheld from distributions

• Qualified Charitable Donation
Form 8606: Track Your IRA Basis

- Deductible contribution - $10,000
- Non-deductible contribution - $20,000
- 401K rollover into IRA - $40,000
- Investment growth - $30,000

- $100,000 IRA value
  - 20% is nontaxable

- Distribute $5,000
  - $1,000 is nontaxable (20%)
  - $4,000 is taxable
Roth IRA: Important Ideas

• Long-term, tax-free growth
• Contributions are non-deductible and subject to AGI limits
• No age restriction on contributions
• Qualified distributions are not taxable provided:
  – Roth IRA has been established for 5 years
  – You are at least 59 ½
  – Non-qualified distributions may be taxed and subject to 10% penalty
• No RMDs
• Great assets to pass down to the next generation
  – Beneficiaries do not pay income tax
  – Required to take RMDs
Backdoor Contributions

• If AGI is too high for a Roth IRA contribution, you can make a “backdoor contribution”

• This strategy works best when:
  – You have little to no other traditional IRA assets, and
  – Your contribution to the traditional IRA is non-deductible
Required Minimum Distributions (RMDs)

• First RMD must be taken by April 1st of the year following the year you turn 70 ½

• Second year RMD must be distributed by December 31st

• Determined by dividing the IRA’s balance as of 12/31 of the preceding year by the applicable distribution period (found in the uniform lifetime tables)

• Three different tables to use for calculating RMDs:
  – Uniform Life Table
  – Joint Life Table – Spouse is beneficiary and more than 10 years younger than you
  – Single Life Table – Used by beneficiaries of IRA

• Owners have to calculate the RMD amounts from all their IRAs but have the option to withdraw the total from one IRA
RMD with Multiple IRAs

IRA #1
$7,000
RMD

IRA #2
$3,000
RMD

Take RMD from each account or $10,000 from one IRA account
First Year RMD: How it Works

Fred Smith, Age 70
Birthdate: May 1, 1947

- IRA balance as of 12/31/2016 is $500,000
- Turns 70 ½ on November 1, 2017
- Must take RMD by April 1, 2018
- Use Table III to determine life expectancy divisor

$500K \div 27.4 = $18,248 RMD
First Year RMD: How it Works

- IRA balance as of 12/31/2017 is $510,000
- Turns 70 in August but 70 ½ on February 1, 2018
- Must take RMD by April 1, 2019
- This may cause increased income because you still have to take the 2019 RMD by December 31st as well

Sally Jones, Age 70
Birthdate: August 1, 1947

\[ \frac{510K}{26.5} = 19,245 \] RMD
Converting Traditional IRAs to Roth IRAs

- Interested in passing down assets to beneficiaries?
- What are your current cash liquidity needs?
- Are you currently in a lower tax bracket?
Roth Conversion: Example

Betty Parker, Age 65
Single

- Rolled over 401(K) into an IRA after retirement
- IRA value is $1,000,000
- Betty has no earned income and $20,000 of capital gains income. Her tax rate for the year is 0%. When Betty starts to take RMDs at 70 ½, her tax rate will be 24%.
- Betty decides to convert $30,000 from her traditional IRA to a Roth IRA. She will pay tax on the Roth conversion today at about 11% versus 24% when taken out in 5 years. She’ll also still get the 0% tax rate on her capital gains income.
Qualified Charitable Donations (QCDs)

• Can donate up to $100,000 annually directly to a qualified charity
  – Your spouse can also have a QCD up to $100,000, if you file a joint return

• Counts toward your RMD
  – You must be at least 70 ½ when the contribution is made

• Not included in income

• No donation recorded on Schedule A, Itemized Deductions

• Only applicable to Traditional IRAs
The Key Takeaways

Traditional IRA

- Tax-deferred growth
- May be tax deductible
- Distributions are taxed as ordinary income
- Cannot contribute past 70½
- RMDs begin at 70½

Roth IRA

- Tax-free growth
- Not tax deductible
- Distributions are not taxable
- No age restrictions
- No RMDs

VS.
Estate Planning & Taxes – Anything to See Here?  

*Inherited IRAs*  
*Estate and Gift Taxes Generally (Very Generally)*
Inherited IRAs

- Spouse may roll into their name and begin to take distributions based on their age
- If child, the RMD has to start year after death of the original IRA owner – pay income tax
- Irrevocable trust funded with IRA? SEEK HELP.
IRA Beneficiary Recommendations

• Always maintain a copy of your beneficiary designation

• Spouse is the most common beneficiary

• Children typically listed as contingent beneficiaries

• Never name your estate or leave blank
  – The IRA would need to be distributed within 5 years
  – EXTRA BONUS: using beneficiary designations allows IRAs, retirement accounts, etc. to pass outside of probate.
The Estate Tax

- **Estate tax** – applies to the fair market value of assets that comprise your “taxable estate” and transferred at death - Form 706

<table>
<thead>
<tr>
<th>Gross Estate</th>
<th>Deductions (professional fees, marital &amp; charitable deduction*)</th>
<th>Taxable Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>(all assets owned/have interest in)</td>
<td>(professional fees, marital &amp; charitable deduction*)</td>
<td>= Taxable Estate</td>
</tr>
<tr>
<td>*Marital deduction - unlimited transfers to spouse</td>
<td>*Charitable deduction - unlimited transfers to charity</td>
<td></td>
</tr>
</tbody>
</table>

Taxable Estate  
\[ \text{Taxable Estate} \times \text{Estate Tax Rate (essentially a flat 40%)} \]
\[ = \text{Tentative Estate Tax} \]

Tentative Estate Tax  
\[ \text{Tentative Estate Tax} - \text{Credits (the unified exemption is applied as a credit on Form 706)} \]
\[ = \text{Estate Tax Owed} \]
Gift Tax

- **Gift tax** – imposed on assets transferred during your life.
  - Taxable gifts reported on Form 709

- **Annual exclusion** – $15,000.

- Like the estate tax, essentially a flat 40% rate applies.
Marriage – A great estate tax deal!

Unified Exemption

Also… Portability
Basis Issues

- “Basis” – your tax-free investment in an asset, i.e. cost basis.
  - Basis step-up at death.
  - Carryover basis for gifts.
• Estate taxes and exemptions are always subject to change – your estate documents should be revisited on a regular basis and consider drafting with flexibility!

• Otherwise, your documents may not operate as originally intended.
EXAMPLE – THE TRESSEL ESTATE

Urban Tressel and his wife, Lois, have a net worth of $3,000,000. They have one son, Woody. Urban has $2,500,000 of the assets titled in his name, while Lois only has $500,000 titled in her name. Urban dies in 2019. Urban and Lois had not updated their estate plan since 2003 when the exemption was $1,000,000 and their net worth was $2,000,000. Urban’s estate plan requires a trust primarily benefitting Woody (with Lois able to take limited distributions) to be funded at Urban’s death with assets up to his remaining federal exemption…any remainder would pass to his wife directly.

Comments: At the time they drafted their estate documents in 2003, paying estate tax was an actual threat (the top rate was 49%!). Using the full exemption was crucial to avoid this tax. Further, their planning at the time contemplated $1,000,000 being passed directly to Lois to support her in the event of Urban’s death.
EXAMPLE – THE TRESSEL ESTATE

Because Urban’s assets are under the federal exemption (now $11,400,000) at his death in 2019, his estate funds only the trust with his entire $2,500,000. Lois receives no additional assets!

Lois dies in 2025 with only $100,000 in her name. At her death, the trust is now worth $3,000,000 and is not includible in her estate for federal estate tax purposes. As a result, their son, Woody, will owe capital gains taxes of over $100,000 on the $500,000 appreciation of the assets in the trust when those assets are sold.

Comments: By the time Urban passed away in 2019, the estate tax was not a threat given the high exemption. However, since there were no updates over the years, his estate fully went to the primary benefit of his son with nothing directly to his surviving spouse – yikes!
EXAMPLE – THE TRESSEL ESTATE

Had Urban’s estate not used a formula clause or had it been flexible to allow that decision to be made at his death along with a portability election, his $2,500,000 estate could have been left to Lois and allowed his son to receive the entire $3,000,000 with no federal estate tax owed, no capital gains taxes owed and a cost basis of $3,000,000.

*Translation*: By not updating his estate documents, Urban not only failed to directly transfer assets to his wife, he also created an additional future tax burden for his son!
Other Helpful Tips

• Beware of scammers - the IRS will NOT call you

• Protect your data and personal information

• IRS.gov

• Questions?
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Thank You!