RESOLUTE FINANCIAL

Fee Only Financial Planning & Investment Management

December 2016

We put your interests first.®

Resolute Connections

Happy holidays from the Resolute Financial team, we wish you the best during the holiday season and into 2017. As we head into the new year we are delighted to announce that we have added another Certified Financial Planner™ to the Resolute team; Stephanie Griebel joins Faye Doria and Bill Simpson in the Portsmouth office. She comes to us from KPF Global Investment Strategies where she was a Senior Investment Advisor, and adds a breadth of experience to the NH team. Since her graduation from Northeastern University in 2001, Stephanie has worked in financial planning and investment management for firms such as Wellington Management and State Street Corporation. We welcome Stephanie to the team and look forward to her contributions to our clients' financial wellbeing.

With the new administration taking up residence in the White House soon, we thought a summary of possible changes in income taxes might be helpful for those looking at some end of year planning strategies, or thinking about next year, see the article *Preliminary Tax Forecast*. In *Retirement Contribution Limits* we summarize the 2017 limits, and *Roth Conversions and Mandatory Distributions* summarizes some of the reasons one may, or may not, decide to convert pre-tax funded IRAs to a Roth IRA. Finally we end with *Uber's Flying Vision,* which summarizes Uber's futuristic view of transportation – think the combination of drones and self-driving cars. But don't sell your car yet, the preliminary launch date is 2026.

If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Preliminary Tax Forecast

Many of President-Elect Donald Trump's policy proposals are too vague to analyze, but one area where he has been clear is on reforming our tax system. Here's a quick primer on the changes that you can expect to be introduced to Congress in the coming year.

1) A shift from seven income tax brackets to three:

Current (Married Filing Jointly)

10% bracket: $0 to $18,550
15% bracket: $18,550 to $75,300
25% bracket: $75,300 to $151,900
28% bracket: $151,900 to $231,450
33% bracket: $231,450 to $413,350
35% bracket: $413,350 to $466,950
39.6% bracket: $466,950 or more

Proposed (Married Filing Jointly)

12% bracket: $0 to $75,000
25% bracket: $75,001 to $224,999
33% bracket: $225,000 or more

The 3.8% Affordable Care Act tax on the lesser of net investment income or the amount by which your AGI exceeds $200,000 would also be eliminated.

In addition, President-Elect Trump has proposed increasing the standard deduction from $12,600 to $30,000 for joint filers (from $6,300 to $15,000 for singles), and capping itemized deductions at $200,000 (joint) or $100,000 (single). He has proposed eliminating the personal exemption, which phases out after a taxpayer's adjusted gross income hits $259,400 (single) or $311,300 (joint), and scrapping the alternative minimum tax altogether.

What might the new rates look like for taxpayers? Low-income taxpayers earning less than $18,500 will move from a 10% to a 12% tax bracket, and some filing couples earning between $225,000 and $231,450 will move from the 25% to a 33% bracket. However, any increase in the tax bracket would likely be offset by the increased deductions for lower income taxpayers.

Most others would see their taxes reduced, particularly those who earn more than $466,950, who see their marginal bracket fall from 39.6% to 33%. Eliminating the 3.8% tax would provide tax relief for taxpayers above $200,000.

Strategies? If you believe the first 100 days will involve the promised tax changes, and that rates will be lower next year than this, there are a variety of possible ways to take advantage. The simplest is to shift income from calendar 2016 into calendar 2017, and aggregate as many losses and deductions as you can into calendar 2016. You might also find an IRA rollover into a Roth to be suddenly less advantageous. Why? If rates in the future are lower than rates today, it would be more expensive to pay ordinary income tax on the amount converted today than it would to pay taxes at the future lower rate. This is less certain, however, since there may be several different Presidential administrations (and changes in tax law) between now and when the money comes out of your retirement plan. A better strategy might be to wait and see if President Trump does give us lower tax rates, and then consider a Roth conversion during that window—especially if you believe the current national debt will necessitate higher rates in the future.

Meanwhile, the Trump plan would repeal the estate tax altogether, but any capital gains above $10 million would be taxed—that is, no step-up in basis, with exemptions for small businesses and family farms. People would no longer be allowed to deduct a charitable donation of the full market value of appreciated assets

The impact? The truth is that most estates aren't taxed under the currently generous estate tax exemption anyway, so for most people this won't have a big impact.

Strategies? For people who ARE looking at paying estate taxes someday, the best advice may be to wait and see. This provision, if enacted, could open a window for individuals to transfer their wealth to heirs tax-free before some future administration decides to reinstate estate taxes.

How likely are these things to happen? There's never any certainty that a wish list will make it, unscathed, through Congress, particularly a Republican Congress that has expressed concerns, in the past, about paying for any tax cuts they create. For many Americans, the next year or two will be a great time to consult with a tax professional.

Retirement Contribution Limits

In case you missed it, the contribution limits to your 401(k) plan, IRA and Roth IRA—set by the government each year based on the inflation rate—will not go up in 2017. Just like this year, you will be able to defer up to $18,000 of your paycheck to your 401(k), and individuals over age 50 will still be able to make a "catch-up" contribution of an additional $6,000. (The same limits apply to 403(b) plans and the federal government's Thrift Savings Plan.) Your IRA and Roth IRA contributions will continue to max out at $5,500, plus a $1,000 "catch-up" contribution for persons 50 or older.

SEP IRA and Solo 401(k) contribution limits, meanwhile, will go up from $53,000 this year to $54,000 in 2017.

The government has made small changes to the income limits on who can make contributions to a Roth IRA and who can claim a deduction for their contribution to a traditional IRA. The Roth IRA contribution phase-out schedule for single filers for 2016 starts at $117,000 and contributions are entirely phased out at $132,000; for joint filers the current range is $186,000 to $196,000. In 2017, the single phase-out will run $1,000 higher, from $118,000 to $133,000, and the joint phase-out threshold will rise $2,000, to $188,000 up to $198,000.

Single persons who have a retirement plan at work will see the income at which they can no longer deduct their IRA contributions go up $1,000 as well, with the phase-out starting at $62,000 and ending at $72,000. Couples will see their deduction phase-out schedule rise to $99,000 to $119,000.

Roth Conversions and Mandatory Distributions

You may know that the IRS requires you to start taking mandatory distributions from your IRA when you turn 70 1/2, even if you don't actually need the money. But can you do a Roth conversion at that late date, and thereby defer distributions forever?

The answer is that you CAN do a Roth conversion at any time, including after age 70 1/2. But that might not be ideal tax planning. Why? Because at the time of the conversion, you would have to pay ordinary income taxes on the amount converted—basically, paying Uncle Sam up-front for what you would owe on all future distributions. So, from a tax standpoint, you're either paying taxes on yearly distributions or all at once. (Or, if it's a partial conversion, on the amount transferred over.) If the goal was to avoid having to pay taxes on that money until you needed it, the conversion kind of defeats the purpose.

The traditional reason people made Roth conversions was to pay taxes at a lower rate today than the rate they expect to have to pay on distributions in the future. They might also want to convert in order to leave the Roth IRA dollars to heirs who might be in a higher tax bracket. But with the new Republican Administration taking over, and Republicans controlling both houses of Congress, tax rates are odds-on favorites to go down, not up, in the near future.

If you still want to go ahead and make a conversion after the mandatory distribution date, the law says that you have to take your mandatory withdrawal from your IRA before you do your conversion.

Uber's Flying Vision

The future of personal transportation will be very different from the past. If you marry two clear trends—the advent of self-driving cars with increasingly popular Uber transportation—it's easy to envision a world where you can sell your car and convert the garage into a spare bedroom. Why would you need your own auto when you can call for an inexpensive, automated ride to anywhere and back? And as a bonus, you avoid parking hassles because you'll be driven right to the destination's doorstep.

Now let's marry one more technology to the mix and see what we come up with. An article in the Economist magazine says that Uber is exploring the use of drone technology. The company has released a white paper on a program called Elevate, which would involve a fleet of flying cars that could turn a 2-hour road trip into a 15 minute flight at 150 miles an hour. No traffic, and all trips would take the shortest possible distance. As a bonus, because there would be no driver and the trips would take less time, the actual cost would be lower than what you pay for a traditional Uber ride today.

The electrically-powered drones would be called VTOLs, or vertical take-off and landing vehicles, which look like modified helicopters. They would be stationed at "vertiports" when not in use, and periodically return to their port to make use of the charging station. Then you take a trip, you'll be delivered to small landing pads on rooftops or parking lots near your destination.

When will this happen? The white paper anticipates a 10-year period from today's planning to the launch in 2026. At that time, it might be possible for people in New York to grab lunch in Philadelphia or Washington, D.C., meanwhile reducing traffic for people who are determined to hang onto their cars.

Sources:
Inside Information – Bob Veres

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.
