

Tax Planning Workshop

Deep Roots Street Food
December 17, 2018
7:00 - 8:00 PM



Important Disclaimer

Past performance is no guarantee of future results. Every investment involves some amount of risk and may not be suitable for any individual. Unless otherwise specified, these results are for simulated portfolios that do not include the negative impact of brokerage commissions, advisory fees, transaction costs, or taxation effects. These impacts would have reduced the returns generated by actual portfolios. You should consult with your investment advisor before acting on this information.

Overview



- Structure
- Securities
- Timing
- Technology
- Summary

Background Data

Estimated Household Budget - 2 People 1 Child, \$100,000 yearly income (www.mybudget360.com)	
Annual Wages	\$100,000
401(k)	\$12,000
Effective Tax Rate (Federal, State, FICA)	21.00%
Monthly Net Income	\$5,793
Mortgage Debt	\$350,000
Term	30
Interest Rate	6.00%
Estimate Monthly Expenses	
Mortgage Payment	\$2,098
Real Estate Taxes	\$401
Gas	\$75
Electric	\$125
Phone	\$40
Cable	\$65
Internet	\$40
Cell Phone	\$50
House Insurance	\$75
Car Insurance	\$150
Life Insurance	\$70
Disability Insurance	\$60
Health Insurance (monthly contribution)	\$250
Medical and Dental Expenses	\$60
Groceries	\$550
Car Payments (2)	\$525
Automobile Gas	\$300
Work lunch/incidentals	\$125
Household Items	\$225
Clothes	\$150
Household Maintenance Repairs	\$250
Entertainment	\$500
Charity	\$100
Pet Expenses	\$50
Dry Cleaning	\$50
Personal Care (haircuts etc)	\$60
Vacations (Prorated Monthly)	\$250
Gifts	\$125
Total Expenses	\$6,819
Net Income/Loss	(\$1,026)

- Housing and taxes are typically our biggest expenses!!!
- Maximum marginal tax rate is currently 37%
- Short term capital gains tax rates as high as 37%
- Long term capital gains tax rates as low as 0%!!!

2018 Tax Table

Individual

Taxable Income	Taxable Income	Tax Due				
\$0	\$9,525	\$0	+	10.0%	of amount over	\$0
\$9,526	\$38,700	\$953	+	12.0%	of amount over	\$9,525
\$38,701	\$82,500	\$4,454	+	22.0%	of amount over	\$38,700
\$82,501	\$157,500	\$14,090	+	24.0%	of amount over	\$82,500
\$157,501	\$200,000	\$14,090	+	32.0%	of amount over	\$157,500
\$200,001	\$500,000	\$32,090	+	35.0%	of amount over	\$200,000
\$500,001		\$150,690	+	37.0%	of amount over	\$500,000

2018 Tax Table

Married Filing Joint

Taxable Income	Taxable Income	Tax Due				
\$0	\$19,050	\$0	+	10.0%	of amount over	\$0
\$19,051	\$77,400	\$1,905	+	12.0%	of amount over	\$19,050
\$77,401	\$165,000	\$8,907	+	22.0%	of amount over	\$77,400
\$165,001	\$315,000	\$28,179	+	24.0%	of amount over	\$165,000
\$315,001	\$400,000	\$64,179	+	32.0%	of amount over	\$315,000
\$400,001	\$600,000	\$91,378	+	35.0%	of amount over	\$400,000
\$600,001		\$161,378	+	37.0%	of amount over	\$600,000

2018 Tax Table

Married Filing Separately

Taxable Income	Taxable Income	Tax Due				
\$0	\$9,525	\$0	+	10.0%	of amount over	\$0
\$9,526	\$38,700	\$953	+	12.0%	of amount over	\$9,525
\$38,701	\$82,500	\$4,454	+	22.0%	of amount over	\$38,700
\$82,501	\$157,500	\$14,089	+	24.0%	of amount over	\$82,500
\$157,501	\$200,000	\$32,089	+	32.0%	of amount over	\$157,500
\$200,001	\$300,000	\$45,689	+	35.0%	of amount over	\$200,000
\$300,001		\$80,688	+	37.0%	of amount over	\$300,000

2018 Tax Table

Head of Household

Taxable Income	Taxable Income	Tax Due				
\$0	\$13,600	\$0	+	10.0%	of amount over	\$0
\$13,601	\$51,800	\$1,360	+	12.0%	of amount over	\$13,600
\$51,801	\$82,500	\$5,944	+	22.0%	of amount over	\$51,800
\$82,501	\$157,500	\$12,698	+	24.0%	of amount over	\$82,500
\$157,501	\$200,000	\$30,698	+	32.0%	of amount over	\$157,500
\$200,001	\$500,000	\$44,297	+	35.0%	of amount over	\$200,000
\$500,001		\$149,297	+	37.0%	of amount over	\$500,000

2018 Tax Table

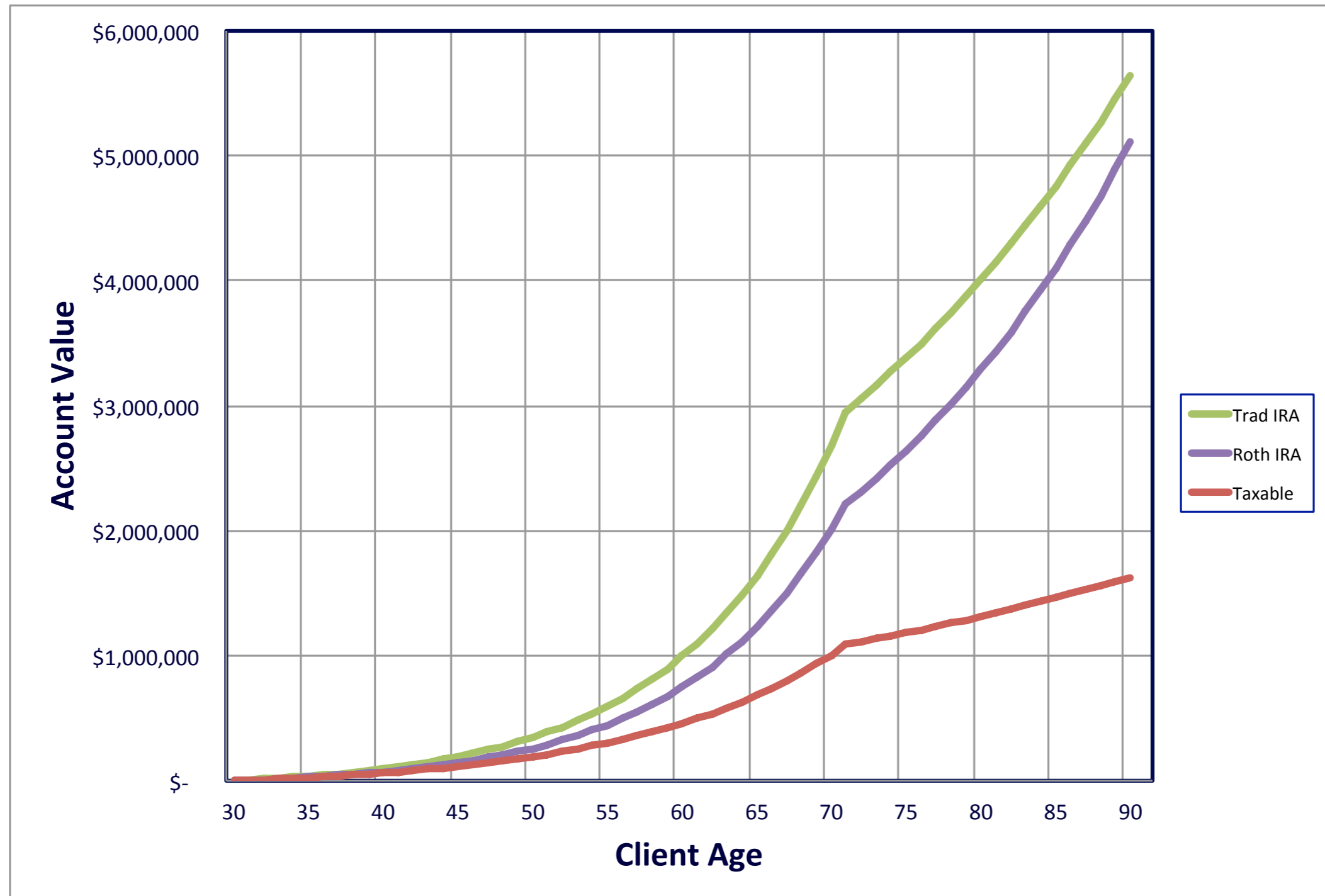
Trusts & Estates

Taxable Income		Tax Due				
\$0	\$2,550	\$0	+	10.0%	of amount over	\$0
\$2,551	\$9,150	\$255	+	24.0%	of amount over	\$2,550
\$9,151	\$12,500	\$1,839	+	35.0%	of amount over	\$9,150
\$12,501		\$3,011	+	37.0%	of amount over	\$12,500

Structure Sets Us Up

- 401(k) accounts allow tax-deferred growth
 - Company match is common feature
 - Ratchet up is new development
- IRAs allow tax-deferred growth
 - Traditional IRA uses “before tax” deposits (taxed on way out)
 - Roth IRA uses “after tax” deposits (never taxed again)
 - Rollover IRA for old 401(k)
- SEP, SIMPLE, LIRP, ...

Tax Deferred Wins!



Securities Do Matter

- Individual securities (stocks & bonds) offer control and precision
- Municipal bonds may deliver higher income with additional risk
 - Read the “fine print” to understand undesirable features
 - After tax yield = nominal yield * (1 - Tm)
- Annuities for people who max out other retirement vehicles
 - Steep commissions when sold by some firms
 - Fixed guarantee vs. variable floor/ceiling
 - High fees on older annuity products

Municipal Bond Example

State	Description	Coupon	Maturity Date	Moody's Rating	S&P Rating	Ask Yield to Worst	Ask Yield to Maturity
N/A	FEDERAL HOME LN MTG CORP 0.00000% 12/11/2025DEB ZERO CPN	-	12/11/25	AAA	AA+	3.052	3.052
CT	WEST HARTFORD CONN GO BDS SER. 2015A 02.00000% 01/15/2026	2.000	1/15/26	AAA	AAA	2.300	2.300

The data and information in this spreadsheet is provided to you solely for your use and is not for distribution. The spreadsheet is provided for informational purposes only, and is not intended to provide advice, nor should it be construed as an offer to sell, a solicitation of an offer to buy or a recommendation for any security by Fidelity or any third party. Data and information shown is based on information known to Fidelity as of the date it was exported and is subject to change. It should not be used in place of your account statements or trade confirmations and is not intended for tax reporting purposes. For more information on the data included in this spreadsheet, including any limitations thereof, go to Fidelity.com.

Brokerage services are provided by Fidelity Brokerage Services LLC, 900 Salem Street, Smithfield, RI 02917. Custody and other services provided by National Financial Services LLC. Both are Fidelity Investment companies and members SIPC, NYSE.

Date downloaded 11/05/2015 12:28 PM

- Assume median household income = \$110,000 (2013)
- Assume $T_m = 25\% = 0.25$
- After tax “yield to worst” for Bond 1 = $2.289\% = 3.052\% * (1 - 0.25)$
- After tax “yield to worst” for Bond 2 = $2.300\% \leq$ Better Choice!

Timing...Is Everything

- End of the calendar/tax year deposits
- End of the calendar year withdrawals
 - Importance of age 70 1/2
 - MRD penalty is 50%!!!
- Turn of the calendar year rebalancing
- Gifting ideas

Important Dates

Date	Event
Wednesday, December 26, 2018	Last day to trade before MRD withdrawal
Monday, December 31, 2018	Deadline to withdraw MRD amount for 2018
Tuesday, January 15, 2019	4th Quarter 2018 Estimated Tax Payment Due
Friday, February 1, 2019	Forms W-2 should be in the mail
Friday, February 1, 2019	Forms 1099 should be in the mail
Monday, April 15, 2019	Individual Tax Returns Due for Tax Year 2018
Monday, April 15, 2019	Last Day to make a 2018 IRA Contribution
Tuesday, October 15, 2019	Last Chance to Recharacterize 2018 Roth IRA Conversion
Tuesday, October 15, 2019	Extended Individual Tax Returns Due

Technology Enables Us

- Maximize short term losses (carry forward)
- Minimize long term gains (offset losses)
- Asset location within household
- iRebal - The Intelligent Rebalancer
- TurboTax import of tax statements from broker

iRebal - The Intelligent Rebalancer

Tax Sensitivity

For all taxable sales, this setting helps determine the order in which securities and taxlots will be sold.

Tax sensitivity for all portfolios Max High Medium Low

Rebalancing Bands

The rebalance bands determine when a security is outside of the specified accepted range and requires correction. The rebalance band settings you specify here will be considered in relation to the model target. You can override them directly in any model.

Min% $Min\% = Target\% - 20\% \text{ of Target\%}$

Example:
If the model target for a security is 10% and the min rebalancing band is set to 20%, the calculated min band will be 8%. The security will be considered out of band and requiring correction when it is below 8%.

Max% $Max\% = Target\% + 20\% \text{ of Target\%}$

Example:
If the model target for a security is 10% and the max rebalancing band is set to 20%, the calculated max band will be 12%. The security will be considered out of band and requiring correction when it is above 12%.

How to apply rebalance band settings:

How should the rebalance band values in existing models be updated with the new values specified above?

Apply to

Note: Blended model bands will always reflect weighted values of their component models.

Important Limits (2018)

Contribution Limits (2018)

Type of Plan	Age < 50	Age > 50
Roth & Traditional IRA (with earned income)	\$ 5,500	\$ 6,500
SIMPLE IRA	\$ 12,500	\$ 15,500
401(k), 403(b), some 457	\$ 18,500	\$ 24,500
SEP IRA (minimum of 25% taxable income or)	\$ 55,000	\$ 55,000
Others	A lot!	A lot!

Phase Outs

Filing Status	Trad IRA		Roth IRA	
	Min	Max	Min	Max
Single	\$ 63,000	\$ 73,000	\$ 120,000	\$ 135,000
Married—Filing joint returns	\$ 101,000	\$ 121,000	\$ 189,000	\$ 199,999
Married—Filing separately	\$ 0	\$ 10,000	\$ 0	\$ 10,000

Helpful Resources

- www.Mint.com is a great place to budget and plan
- www.TurboTax.com has loads of free information
- www.AdvisorClient.com has superior technology
- www.AAI.com is a tremendous value
- Your local accountant!!!

Your Homework!!!

- Review your 401(k) plan
 - Maximize the employer match
 - Review allocations, selections, and fees
- Make your IRA contributions as early as possible
 - Check contribution limits (\$5,500 if aged 50 or less)
 - Check income phase out schedule (see IRS table)
- Remind parents to take MRDs from all but Roth IRAs

Summary

- Account type and structure are critical
- Some securities may offer tax-free income
- Timing our buys and sells can help reduce the tax burden
- Think of an accountant as an investment vs. an expense
- Plan ahead!!!

Questions

JQR Capital Management, LLC
Rachel Cornish Suite
2 Park Place
Granby, CT
06035
(860) 325-0330
invest@JQRCapital.com
<http://www.JQRCapital.com>

