

Taxes and Change.

Pine Haven Investment Counsel, Inc. – Commentary – 1st Quarter 2019

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Phew. We have gotten past tax day.

Did your taxes go up or down? Did you get a refund? Did you take the increased Standard Exemption Amount or were you still able to itemize? Many American's paid less in tax for 2018, however, if they got a lower refund (or owed) they are upset. In fact, according to the independent Tax Policy Center, 65% of tax filers got a tax cut, however, according to a NBC/WSJ Poll only 17% people believe they got a tax cut. Additionally, many Americans and businesses count on refunds, as consumers like to use that money on bigger ticket items and businesses have come to rely on this boost.

We are starting to get a read on how the major tax overhaul of 2018 is effecting individuals and corporations. And who benefited the most from the changes. For individuals that reside in states with high property taxes (and/or income taxes) the cap of \$10,000 on state and local tax deductions meant that many did not have enough in deductions to itemize. This was the case for my husband and me. We are considering bunching our charitable contributions into alternating years so that we will itemize one year and take the standard in others. And many people who itemized in the past felt as if they lost something (even if they paid less overall).

Despite the cap on state and property tax deductions, overall higher earners did benefit greatly from the new tax law. According to the Tax Policy Institute, the top 1% got a tax cut averaged around \$30,000. And overall took 17% of the total benefits. Of course this group also pays the most in taxes (in terms of dollars paid). And the middle fifth ended up with around a \$780 reduction from the tax cut and many didn't notice the change in their withholdings (around \$15 a week).

Small Business and large corporations also benefited with much lower tax rates. It was hoped that the tax cut would encourage businesses to expand and invest in capital expenditures. Initially there was an increase in capital expenditures however levels are now back to pre-tax cut levels. Larger corporations have used a lot of their tax savings to buy back stock – which helps investors and not employees.

Economically, the United States has remained strong. Although there are signs that the growth is slowing down a bit. As a result the Federal Reserve has announced that it is pausing and will not be raising interest rates at the same pace as they had expected at the beginning of this year. The next move by the Fed may be to lower rates. And the job market remains strong and there has been some upward pressure on wages. Surprisingly, this has not yet led to any increased inflationary pressures.

One overall concern is how much these tax cuts have added to federal debt levels. This is despite the claim that the tax cuts would pay for themselves because of an improved economy. The

economy has improved yet not enough to pay for the tax cut. Budget deficits are expected to skyrocket past \$1 Trillion a year in 2022 (source Congressional Budget Office).

As we continue into 2019, there is some movement in Congress to update retirement rules. It appears this maybe an area that has bipartisan support. One proposal would increase the RMD (Required Minimum Distribution Age) to 72 from 70 ½ thus allowing retirement asset to grow tax free for longer. We will keep you updated on any changes that will affect you if they become law. On the other side, the requirement to be a fiduciary does appear to not be going anywhere as Congress and SEC is bowing to pressure from Wall Street. We remain a fiduciary as Paige is a CFA® (Chartered Financial Analyst) and is bound by the fiduciary standard (requirement to act in the client's best interest).

As for your taxes, please let us know if you would like help understanding your taxes and the effects that your investments have on your tax situation. We may be able to help you reduce your tax burden in future years and your overall lifetime tax burden. Of course the adage is "nothing can be certain except death and taxes."* Another thing that is certain is that politicians will always be looking to change the tax laws.

** In 1789, Benjamin Franklin wrote, "Our new Constitution is now established and has an appearance that promises permanency; but in this world, nothing can be said to be certain except death and taxes."*