

## TAKING AN AXE TO TAXES: A SUMMARY OF THE NEW TAX ACT

In late December the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. This legislation marks the most significant tax overhaul in over a decade. As we meet with clients in the coming months we will review how the new tax law may impact them, and explore opportunities to minimize taxes.

Here are a few takeaways from the new tax bill that everyone should consider. Of course, our legal counsel requires that we insert the obligatory disclaimer that this is not tax advice and readers should consult with their tax professional to address their specific circumstance. TCJA is effective for tax years beginning in 2018, and many of the provisions affecting individual taxpayers will expire in 2026.

### THE PERSONAL EXEMPTION IS NOW EXTINCT.

In 2017 taxpayers received a personal exemption of \$4,050 (a direct reduction in taxable income) for themselves and any dependents. For a family of four, those exemptions reduced income by \$16,200. The elimination of the personal exemption is offset by a higher standard deduction (\$12,000 for a single taxpayer and \$24,000 for a married couple).

### ITEMIZED DEDUCTIONS V. STANDARD DEDUCTION.

The standard deduction calculation changes rather significantly for most taxpayers. Most importantly, there is now a cap of \$10,000 on state and local taxes (including property taxes).

### FEW PEOPLE WILL BE SUBJECT TO FEDERAL ESTATE TAX.

The estate tax exemption nearly doubled to \$11.2 million per person, and "portability" is maintained. This means a married couple can pass \$22.4 million without any federal estate tax.

“This legislation marks the most significant tax overhaul in over a decade.”

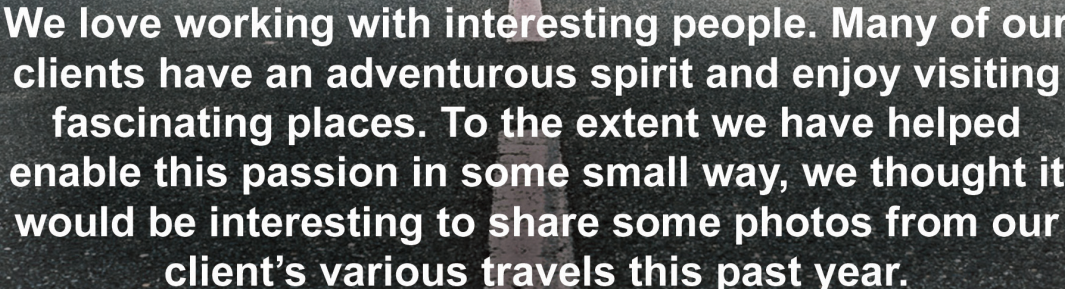
### Things to consider:

- Taxpayers who make significant charitable contributions, may want to consider “chunking” their contributions into one tax year (making three years of contributions to a donor-advised fund, for example). This would allow them to maintain their charitable support, while taking advantage of the new higher standard deduction in off years. The charitable deduction limit is also increased from 50% of AGI to 60%.
- Consider decanting old credit shelter trusts. With the increased estate tax exemption, terminating credit shelter trusts allows those assets to realize a step up in cost basis at the death of the owner / beneficiary. *Note*—there can be considerations beyond tax reduction (spendthrifts, asset protection from creditors, second marriages, etc.) that may argue for maintaining credit shelter trusts.
- Roth IRA conversions (or partial conversions) along with Roth 401ks may be more appealing given the reduction in tax rates.
- For taxpayers over 70 ½, making charitable contributions directly from your IRA may be more advantageous given the higher standard deduction.

In sum, we encourage readers to review their tax situation with their trusted advisor and plan well ahead of year end to determine their best course of action.











## WHAT'S ALL THE BUZZ ABOUT BITCOIN?

Over the last two months I've received nearly a half-dozen solicitations about Bitcoin. From a multi-level marketing promotion touting a "Bitcoin trading platform with earnings up to 140%" to a "cryptocurrency real estate business" it seems everyone wants in on Bitcoin. It has all the signs of an investing hysteria, speculation run amok.

Let's explore Bitcoin to separate fact from fiction. Unlike traditional money, no paper notes or metal coins are involved. No central bank issues the currency, and no regulator or nation state stands behind it. Instead, cryptocurrencies are a form of code made by computers and stored in a digital wallet. In the case of Bitcoin, there is a finite supply of 21 million "units" of which more than 16 million are in circulation.

What are investors to make of all the media attention surrounding Bitcoin? What place, if any, should Bitcoin play in a diversified portfolio? Recently, the value of Bitcoin has risen sharply, but that is the past. What about its future value? Perhaps the best way to view any investment is from the standpoint of how your invested capital is put to work.

When an investor buys stock, it offers shareholders a claim on future profits. When a company issues a bond, it offers investors a promised stream of future cash flows, including the repayment of principal when the bond matures. The price of a stock or bond reflects the return investors demand to exchange their cash today for an uncertain but greater amount of expected cash in the future. One important role these securities play in a portfolio is to provide positive expected returns by allowing investors to share in the future profits earned by corporations globally. By investing in stocks and bonds today, you expect to grow your wealth and enable greater consumption tomorrow.

What "earnings" might Bitcoin provide? The answer is none. There is no future earnings stream or promised interest payment from Bitcoin. Its value is solely determined by supply and demand. In addition, future regulation adds uncertainty to any Bitcoin investment decision. While recent media attention has ensured Bitcoin is more widely discussed today than in years past, it is still largely unused by most financial institutions and not widely accepted as a means of payment for goods and services.

It has also been the subject of scrutiny by regulators. For example, the US Securities and Exchange Commission recently warned that

“There is no future earnings stream or promised interest payment from Bitcoin. Its value is solely determined by supply and demand.”

any new investment appearing to be exciting and cutting-edge has the potential to give rise to fraud and false "guarantees" of high investment returns.

Should we expect the value of Bitcoin to appreciate? Maybe. Maybe not. Just as with traditional currencies, there is no reliable way to predict by how much and when that appreciation will occur. We do know that we should not expect to receive more Bitcoins in the future just by holding one Bitcoin today. They don't entitle holders to an expected stream of future Bitcoins, and they don't entitle the holder to a residual claim on the future profits of global corporations.

Unlike stocks or bonds, it is not clear that Bitcoins offer investors positive expected returns. Unlike government bonds, they don't provide clarity about future wealth. And, unlike holding cash in fiat currencies, they don't provide the means to pay for groceries, gas or health care. Because Bitcoin does not help achieve these investment goals, we believe that it does not warrant a place in a portfolio designed to meet one or more of such goals.

We are always cautious of sensational claims of a paradigm shift in financial markets. Investors would be wise to make sure they thoroughly understand the pros and cons of any investment before committing their capital.



## IN THE NEWS

**Mike Palmer's son, Zachary**, graduated from UNC in December and has accepted a position as a Client Services Associate with Vanguard. Congratulations Zach!

**We are pleased to announce,** that Mike will be an instructor at Wake Tech Community College's new Personal Finance Academy starting in the Spring.

A special “Thank You” to all the clients who shared photos of their various travels. We look forward to making this an annual tradition!

## Personal Aging Plan Checklist

## Do you have an aging parent that you are concerned about?

**We've created a "Personal Aging Plan Checklist" that is a valuable resource for anyone facing the myriad issues of an aging loved one.**

**We are glad to share a copy,  
just give us a call.**

*The* CORNERSTONES *of*  
ARK ROYAL WEALTH MANAGEMENT

**To nurture a culture that puts our client's interest first—always**

**To be truthful at all times, to be intellectually honest with ourselves and with our clients, even if it isn't what they want to hear**

**A commitment to lifelong learning, and a passion for applying our wisdom efficiently and effectively every single day**

**Align what you say, what you do and what you think to honor yourself, your family and our firm**