



Precision Monthly

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Global Trade Tension

We feel the following article from our partners at Goldman Sachs concisely outlines the first quarter trade events while considering market opportunities and challenges seen with these events.

[Trade Tension](#) : Market Opportunities and Challenges

April 2018

The Standard Deduction and Itemized Deductions After Tax Reform

Four Points to Consider When Setting a Retirement Income Goal

Cartoon: It's Tax Time Again!

Will a government pension reduce my Social Security benefits?





The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. After 2025, these provisions revert to pre-2018 law.

The Standard Deduction and Itemized Deductions After Tax Reform

The Tax Cut and Jobs Act substantially increased the standard deduction amounts for 2018 to 2025. It also eliminated or restricted many itemized deductions for those years. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Standard deduction

The standard deduction amounts are substantially increased in 2018 (and adjusted for inflation in future years).

	2017	2018
Single	\$6,350	\$12,000
Head of household	\$9,350	\$18,000
Married filing jointly	\$12,700	\$24,000
Married filing separately	\$6,350	\$12,000

Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 is \$1,600 (up from \$1,550 in 2017) for single/head of household or \$1,300 (up from \$1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Itemized deductions

Many itemized deductions have been eliminated or restricted. The overall limitation on itemized deductions based on the amount of adjusted gross income (AGI) was eliminated. Here are some specific changes.

Medical expenses: The AGI threshold for deducting unreimbursed medical expenses was reduced from 10% to 7.5% for 2017 and 2018, after which it returns to 10%. This same threshold applies for alternative minimum tax purposes.

State and local taxes: Individuals are able to claim an itemized deduction of up to only \$10,000 (\$5,000 for married filing separately) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income taxes). Previously, there were no dollar limits.

Home mortgage interest: Individuals can deduct mortgage interest on no more than \$750,000 (\$375,000 for married filing separately) of qualifying mortgage debt. For mortgage debt incurred before December 16, 2017, the prior \$1,000,000 (\$500,000 for married filing separately) limit will continue to apply. A deduction is no longer allowed for

interest on home equity indebtedness. Home equity used to substantially improve your home is not treated as home equity indebtedness and can still qualify for the interest deduction.

Charitable gifts: The top percentage limit for deducting charitable contributions is increased from 50% of AGI to 60% of AGI for certain cash gifts.

Casualty and theft losses: The deduction for personal casualty and theft losses is eliminated, except for casualty losses attributable to a federally declared disaster.

Miscellaneous itemized deductions: Previously deductible miscellaneous expenses subject to the 2% floor, including tax preparation expenses and unreimbursed employee business expenses, are no longer deductible.

Alternative minimum tax (AMT)

The standard deduction is not available for AMT purposes. Nor is the itemized deduction for state and local taxes available for AMT purposes. If you are subject to the alternative minimum tax, it may be useful to itemize deductions even if itemized deductions are less than the standard deduction amount.

Year-end tax planning

Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

With the substantially higher standard deduction amounts and the changes to itemized deductions, it may be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction. Thus, while this might seem counterintuitive from a nontax perspective, it may be useful to make charitable gifts in years in which you have high medical expenses or casualty losses.

In this environment, qualified charitable distributions (QCDs) may be even more useful as a way to make charitable gifts without itemizing deductions. QCDs are distributions made directly from an IRA to a qualified charity. Such distributions may be excluded from income and count toward satisfying any required minimum distributions (RMDs) you would otherwise have to receive from your IRA. Individuals age 70½ and older can make up to \$100,000 in QCDs per year.



Four Points to Consider When Setting a Retirement Income Goal

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. When do you plan to retire?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible. As you think about your anticipated retirement date, keep the following points in mind.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that current workers plan to retire at a median age of 65, while current retirees reported a median retirement age of 62. And although four in 10 workers plan to work until age 70 or later, just 4% of retirees said this was the case. Why the difference? Nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.¹

2. How long will your retirement last?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can

expect to live 18 more years.² To estimate your own life expectancy based on your current age and health profile, visit the online longevity calculator created by the Society of Actuaries and American Academy of Actuaries at longevityillustrator.org.

3. What will your expenses look like?

The third consideration is how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise.

In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about \$265,000 just to pay for basic medical expenses in retirement.³ And that doesn't even include the potential for long-term care. According to the Department of Health and Human Services (HHS), 52% of people over age 65 will need some form of long-term care during their lifetimes, which could add another \$69,000, on average, to the out-of-pocket costs.⁴

In addition, remember to account for the impact inflation will have on your expenses over time. For example, say you need an estimated \$50,000 to cover basic needs in your first year of retirement. Ten years later, at a 3% annual inflation rate (the approximate historical average as measured by the consumer price index), you would need more than \$67,000 to cover those same costs.

4. How much can you accumulate?

This is perhaps the most important consideration: How much can you *realistically* accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

¹ EBRI Issue Brief, March 21, 2017

² NCHS Issue Brief, Number 293, December 2017

³ EBRI Notes, January 31, 2017

⁴ HHS, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," February 2016



Although there are certainly no guarantees that any future plans will pan out as expected, taking time now to assess these four points can help you position yourself to pursue a comfortable retirement.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



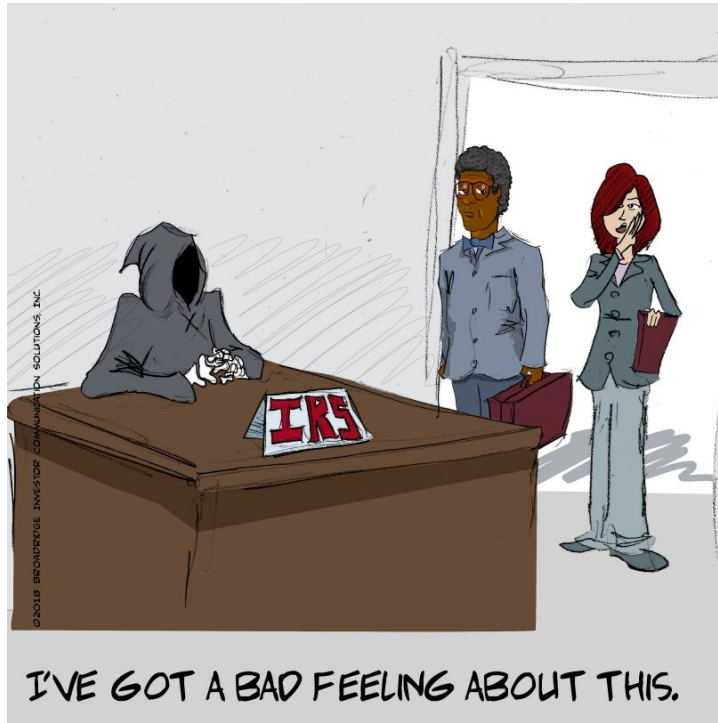
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The information provided is not intended to be a substitute for specific individualized tax planning or legal advice. We suggest that you consult with a qualified tax or legal advisor.



Will a government pension reduce my Social Security benefits?

If you earned a government pension from a job not subject to Social Security tax withholding ("noncovered

employment") and are also eligible for Social Security benefits through a job where Social Security taxes were withheld, two provisions might reduce your benefits: the windfall elimination provision (WEP) and the government pension offset (GPO).

The WEP affects how a worker's Social Security benefit is calculated. If you're subject to the WEP, your benefit is calculated using a modified formula, possibly resulting in a benefit reduction. The amount of the reduction depends on the year you turn 62 and the number of years in which you had substantial earnings and paid into Social Security (no reduction applies to those with 30 years or more of substantial earnings). The reduction cannot be more than one-half of your pension from noncovered employment. Spousal and dependent benefits may also be reduced, but not survivor benefits.

The GPO may affect spousal or survivor benefits if the spouse or survivor earned a

government pension from noncovered employment. In this case, the GPO may reduce Social Security benefits by up to two-thirds of the amount of the pension.

For example, if you receive a \$900 monthly government pension and are eligible for a \$1,000 monthly Social Security spousal benefit, you would receive only \$400 per month from Social Security [\$1,000 minus \$600 (2/3 times \$900) equals \$400]. You would still receive your \$900 pension, so your combined benefit would be \$1,300.

Not all government employees are subject to these provisions. For example, federal employees under the Federal Employees Retirement System are exempt because they pay Social Security taxes on earnings. However, public-sector employees in some states do not pay Social Security taxes, and thus could be subject to the WEP. The GPO affects pensions from noncovered federal, state, or local government employment.

Rules and calculations for the WEP and the GPO are complex. Visit the Social Security website, ssa.gov, for more information.

