

# Q4news

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## Key Highlights of the New Tax Act:

Big changes are going into effect in 2018 thanks to the new tax legislation passed and signed into law in late December. Here is a brief summary of notable changes:

- The new law maintains seven income tax brackets but adjusts the tax rates and income levels, including lowering the top rate from 39.6% to 37%.
- The preferential treatment for long-term capital gains and dividends remains intact.
- The standard deduction nearly doubles to \$12,000 for single filers and \$24,000 for married filers, reducing the incentive to itemize and simplifying for some taxpayers. Personal exemptions are eliminated.
- The child tax credit is doubled to \$2,000 for each dependent under age 17 and the income phase-out thresholds are much higher.
- In general, rules for charitable contributions remain unchanged.
- The medical expense deduction is enhanced by lowering the AGI threshold for deducting medical expenses from 10% to 7.5%.
- The home mortgage interest deduction is limited. Interest can be deducted on up to \$750,000 of new acquisition debt on a primary or second residence. The new limit generally applies to mortgage debt incurred after Dec. 14, 2017.
- No write-off is allowed after 2017 for interest on existing or new home equity loans.
- State, local and property taxes are deductible up to a maximum of \$10,000.
- Miscellaneous itemized deductions that exceed 2% of adjusted gross income are not allowed under the new law. Examples of miscellaneous itemized deductions include investment management fees, tax preparation fees and unreimbursed job expenses.

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Index	Year to Date
S&P 500	21.83%
Russell Midcap	18.52%
Russell 2000	14.65%
MSCI EAFE	25.03%
Barclays Aggregate Bond	3.54%
Barclays Muni Bond Index	5.45%
Dow Jones Industrial Average	28.11%

\*Index return data is provided by Morningstar Direct<sup>SM</sup>

## Quarterly Market Review

- 2017 ended on a high note as virtually all equity markets had posted strong gains. The S&P 500 finished the year up over 20% and many indexes outside the US did even better. The S&P 500 set a new record by posting 12 consecutive months of positive returns, besting the previous 10 month run.
- These strong gains were in many ways warranted by synchronized global economic growth. For the first time since the financial crisis, the vast majority of global economies grew together providing a tailwind for corporate profits and equity prices.
- Despite the strong economy and three rate hikes by the Federal Open Market Committee (FOMC), bond yields finished the year roughly where they started. The benchmark 10 year bond yield fell throughout much of the year before rallying in the fourth quarter to finish the year at 2.41%, just a touch below the 2.45% at which it started the year.
- Oil prices rallied into the end of the year closing out 2017 above \$60 a barrel for the first time since 2013. The strong economic backdrop helping demand, the continued production cuts by OPEC, combined with some supply outages and geopolitical concerns, finally proved enough to move oil out of its multi-year trading range. ▲

## News and Notes

- President Trump chose not to re-nominate Janet Yellen as Chair of the Federal Reserve Board of Governors. He selected Jerome "Jay" Powell as her successor. Powell is seen as a moderate and is largely expected to continue the existing policies. There was some concern in the markets that a more controversial appointment would be made. The Powell nomination appears well received by the markets as it removed a certain degree of uncertainty.
- Amid much drama the Republicans were finally able to pass the "Tax Cuts and Jobs Act of 2017" just before the year end. Amongst other things this bill reduces corporate income tax rates to 21% from 35% and it also lowers individual rates for most individuals. Though there is considerable debate about the long term costs and benefits of this bill, there is little doubt it will add to economic growth in the short term.
- The justice department moved to block the merger of AT&T and Time Warner surprising markets and marking a major change in precedent for how regulators view mergers and acquisitions. This decision will be challenged and eventually decided in court. This action, combined with a few other transactions involving foreign buyers, would seem to indicate a less merger friendly environment.
- As we enter 2018, many of the factors that led to the strong returns in 2017 remain in place. Looking ahead we see a few key focus areas. First, this year's midterm elections may result in a shift in the balance of political power. Additionally, we have a FOMC that is expected to be actively raising rates. As well we have a geopolitical landscape with no shortage of potential hot spots. At a minimum it should make for an interesting year. ▲



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## Team Spotlight

### Kim Shavlik Randolph

Administrative Professional, Client Service Professional

The Randolph family has much to be thankful for in 2018! Congratulations to Shavilk Randolph on making his first All-Star Game in China as one of the top vote getters in the league! Not only does he put up 31 points and 14 rebounds a game this season as the best Big in the league, he has worked tirelessly on maintaining his health and strength, and stayed injury free!! Kim is one proud Mom! ▲



## Social Security Changes to Expect in 2018

### **SOCIAL SECURITY BENEFICIARIES WILL SEE A 2% INCREASE IN PAYMENTS**

For the average Social Security recipient, this 2% raise will amount to just \$27 per month, however, much or all of the gain may go toward Medicare Part B premiums.

### **MAXIMUM TAXABLE EARNINGS WILL INCREASE TO \$128,700**

In 2018, employees are required to pay a 6.2% Social Security tax (with their employer matching that payment) on income up to \$128,700.

### **FULL RETIREMENT AGE WILL CONTINUE TO INCREASE**

The absolute earliest a person can start claiming Social Security retirement benefits is 62. However, claiming before your full (or normal) retirement age will result in the payout being permanently reduced. For those who turned 62 in 2018, the full retirement age will increase to 66 and four months. The full retirement age is set to increase by two months each year until it hits 67. So, for anyone born in 1960 or later, the full retirement age will be 67.

Those who delay collecting Social Security past their full retirement age can actually collect more than their full payout. In fact, someone who puts off claiming until age 70 would receive a 76% higher annual payout than a person who started receiving benefits at 62.

### **MAXIMUM MONTHLY SOCIAL SECURITY BENEFIT WILL INCREASE TO \$2,788**

As the taxable maximum increases, so does the maximum amount of earnings used by the SSA to calculate retirement benefits. In 2018, the maximum monthly Social Security benefit for a worker retiring at full retirement age is 2,788.

### **EARNINGS LIMITS WILL INCREASE**

Those who work while collecting Social Security benefits usually find all or part of their payouts can be temporarily withheld, depending on how much they earn. Prior to reaching the full retirement age, beneficiaries will be able to earn up to \$17,040 in 2018. After that, \$1 will be deducted from their payment for every \$2 that exceeds the limit.

Anyone reaching their full retirement age in 2018 will be able to earn \$45,360. For every \$3 earned over the 2018 limit, Social Security benefits will be reduced by \$1, but it will only apply to money earned in the months prior to hitting the full retirement age. Once a person hits the full retirement age, no benefits will be withheld if they continue working. ▲

## Key Highlights of the New Tax Act, continued...

- 529 college savings plans are enhanced to allow annual distribution of up to \$10,000 per student to pay tuition for elementary and secondary education.
- 529 ABLÉ savings programs for the disabled are enhanced by allowing tax-free rollovers from 529 college savings plans to 529 ABLÉ accounts.
- The new law repeals rules that allow for re-characterization of Roth conversions back into traditional IRAs. Once you convert to a Roth, there's no going back.
- The 3.8% Medicare surtax on investment income for high-income taxpayers was retained.
- The Alternative Minimum Tax (AMT) for individuals was not repealed, but exemptions have been widened.
- The estate and gift tax exemption will double from \$5.6 million to \$11.2 million, and \$11.2 million to \$22.4 million for couples. The step-up in asset cost basis is maintained for heirs.

Given the complexity and breadth of the changes, it is important to consult with a qualified tax advisor to determine whether and how the new legislations will impact you. Finally, it's important to point out that many of the more popular changes in the tax code for individuals will sunset in 2025. While many may eventually be made permanent, as we saw with the Bush tax cuts of 2001 and 2003, there's no guarantee this will happen again. ▲