

The Financial Advocate

Summer 2018

Tax Cuts and Jobs Act

By Kenneth J. Burke, CPA, CBEC®, CFO and General Manager

The recently enacted Tax Cuts and Jobs Act (TCJA) was approved by Congress and signed into law by the President on December 22, 2017. The bill has altered the tax landscape for many individuals and businesses, and will affect approximately 120 million tax returns. The changes are extensive, and this article provides a high-level overview of some of the highlights to keep you informed.

The individual provisions of the new law are set to expire on December 31, 2025. Depending on your tax circumstances, you may or may not want these provisions to expire. However, it provides us with a unique opportunity to engage in creative, multi-year tax planning in order to maximize the benefits under the new bill.

Changes in tax rates

You may have heard in the news that the goal of tax reform was to reduce the number of tax rates from the existing seven rates to three. While that was discussed, the bill signed into law still has seven rates, but they are now generally lower with the highest rate being reduced from 39.6% to 37%. The tax rates applicable to net capital gains and qualified dividends did not change. [See chart on next page >](#)

Increased standard deduction

The new standard deductions are:

- Head of household: \$18,000
- Married filing jointly: \$24,000
- All other taxpayers: \$12,000

Although you may have historically had itemized deductions exceeding these amounts, other changes to itemized deductions may affect whether you are above the standard deduction in a given year. This provision will increase the number of taxpayers utilizing the newly increased standard deduction. According to estimates

by the staff of the Joint Committee on Taxation, approximately 94% of taxpayers will claim the standard deduction under the bill, up from approximately 70% under the prior law.

Elimination of personal and dependent exemptions

In the past, taxpayers received an exemption for themselves, their spouse and each of the eligible dependents they claimed on their tax return. This exemption is eliminated under the new law.

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Child and family tax credit

The TCJA increased the child tax credit for children under age 17 to \$2,000 and also introduced a new \$500 credit for a taxpayer's dependents who do not meet the definition of qualifying child.

Changes to itemized deductions

- The overall phase-out of itemized deductions has been repealed.
- The itemized deduction for state and local taxes is limited to a total of \$10,000 (\$5,000 for those using the filing status of married filing separately). For example, if you paid \$15,000 in state income taxes and \$6,000 in real estate taxes on your home (\$21,000 in total), you would not be able to deduct the \$11,000 that exceeds the deduction threshold.
- Mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to \$750,000 (down from \$1 million).
- Interest on home equity indebtedness (such as a home equity line of credit) is no longer deductible unless the debt is really acquisition indebtedness (used for home improvement).
- Cash donations to public charities are now deductible up to 60% of adjusted gross income.
- Medical expenses are deductible by the amount the expenses exceed 7.5% of adjusted gross income for 2018 (limit changes to 10% starting in 2019).

Sec. 529 plans

The TCJA expanded the opportunities available for education tax planning by permitting \$10,000 per year to be distributed from Sec. 529 plans to pay for private elementary and secondary tuition.

TAX BRACKET	SINGLE-TAXABLE INCOME	MARRIED-TAXABLE INCOME
10%	Less than \$9,525	Less than \$19,050
12%	\$9,526 - \$38,700	\$19,051 - \$77,400
22%	\$38,701 - \$82,500	\$77,401 - \$165,000
24%	\$82,501 - \$157,500	\$165,001 - \$315,000
32%	\$157,501 - \$200,000	\$315,001 - \$400,000
35%	\$200,001 - \$500,000	\$400,001 - \$600,000
37%	Over \$500,000	Over \$600,000

CAPITAL GAINS TAX RATE ● 0% ● 15% ● 20%

Alimony

Tax reform has eliminated the deduction for alimony paid and the recognition of income for alimony received effective for divorce decrees executed after December 31, 2018.

Estate and gift tax exemptions

Estate and gift tax laws have undergone a number of changes over the past decade. Under the TCJA, the estate and gift tax exemption has doubled to \$11.2 million per person effective as of January 1, 2018.

TAX PLANNING IDEAS UNDER TCJA

Bracket management

Considering that we have a finite window of lower ordinary income tax rates, tax bracket management becomes the centerpiece of planning. By strategically recognizing additional taxable income over the next seven years, you may be able to reduce your overall tax bill in the long run.

Charitable contributions using your IRA Required Minimum Distribution (RMD)

Individuals 70 ½ years old are required to take minimum distributions from their IRA otherwise known as RMDs. Taxpayers can pay up to \$100,000 directly from their IRA to a qualified charity and that distribution is not included in their taxable income. While this is not a new strategy, it may benefit

taxpayers with lower overall itemized deductions under the new bill.

0% capital gains

Who doesn't like 0% tax? If you file a joint return, you will pay \$0 capital gains tax on taxable income up to \$77,400. This provides a unique opportunity to deal with concentrated stock positions or capital gain harvesting with little to no tax.

ROTH conversions—No “do-over”

For tax years beginning after December 31, 2017, you can no longer recharacterize a conversion from a traditional IRA to a ROTH. Previously, you could unwind a ROTH conversion before the due date (including extensions) of your personal return. Without this “do-over” provision, it is advisable to wait until the end of the year, evaluate market conditions and then make your decision.

Believe it or not, TCJA passed the “Tax Complexity Analysis” according to the 676-page Conference Committee report. While some aspects of the new bill have simplified tax reporting, the real opportunities are found through the planning process. We are here to help. If you have a question, need planning assistance or would like a few new ideas, don't hesitate to call us.





Five Wishes

By Jennifer Vogler, Esq., Chief Compliance Officer



When we talk about estate planning, we immediately think of dull, but necessary, documents such as wills, trusts, health care proxies, beneficiary designations and powers of attorney. While these documents are extremely important, they do little to convey to our loved ones our life lessons and end-of-life wishes, beyond that of “who gets what” and “who is in charge.” I have attended many classes and seminars focused on estate planning and, in recent years, have noticed a trend towards a more personal approach to this planning, particularly as it relates to end-of-life care.

Many of you attended our seminar on Dementia and Elder Fraud, presented by Amy Florian, CEO of Corgenius. Ms. Florian discussed traditional tools used when planning for illness, dementia and death, and introduced resources to capture the

personal details of estate and life planning. She highlighted the Five Wishes document, an end-of-life communication tool developed by the non-profit organization, Aging with Dignity. Five Wishes is essentially a living will that not only covers your medical wishes but also addresses your spiritual, emotional and personal wishes.

The first of the Five Wishes names the person (agent) you want to make health care decisions for you if you are unable to make them. In many circumstances, your agent is your spouse or a family member, but family may not always be the best choice because of the emotion involved. The agent you choose should know your wishes and be willing to respect and follow them, even in times of conflict.

The second wish relates to the kind of medical treatment you want or do not

want. This is seen in most living wills, but Five Wishes expands on what “life-support treatment” means to you in situations such as coma, brain damage or near death. It is written in plain language, free of medical and legal jargon.

The third wish is where the document really starts to distinguish itself from the typical living will. This wish is your wish for how comfortable you want to be. For example, this wish may include favorite music to be played, books, scripture or poems to be read, or a special blanket or keepsake nearby.

The fourth wish is about how you want people to treat you. This wish may include being able to die at home, if possible, or having people present to pray, hold your hand, or talk to you.

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ESTATE PLANNING CHECKLIST:

Planning, Preparedness and Peace of Mind

Personal Information:

- Birth certificates
- Marriage certificates
- Divorce, separation, pre- or post-nuptial agreements
- Death certificates of spouse/family members
- Veterans Affairs information/military records

Financial Information:

- Tax returns (income, gift, business) - IRS advises keeping last five years
- Checking and savings accounts
- Brokerage account statements
- Mutual fund statements
- Credit cards
- Loans (car, mortgage)
- Retirement accounts (IRAs, employer plans, annuities, pensions)
- Business/partnership agreements
- Real estate

Insurance Documents/Information:

- Life insurance policies
- Medical, homeowners and auto policies
- Long-term care policies
- Disability and umbrella policies
- Annuities

Estate Planning Documents:

- Will/living trust
- Up-to-date beneficiary designations, joint ownership and transfer on death
- Power of attorney
- Living will/health care proxy/ Five Wishes/MOLST, if applicable
- Disposition of remains/funeral/burial information

Tangible Property/Personal Belongings/Pets:

- Title to vehicles, boats, etc.
- Pistol permits

- Appraisals of jewelry, furniture, collections, etc.
- Instructions for care of pets and vet information

Other Information:

- Online and social media accounts
- Secure list of passwords for accounts (with an authorized person who knows how to access it)
- Contact list (who should be notified in case of serious illness/injury or death)
- Names and contact information of attorney, financial advisor/ planner, accountant or tax preparer, insurance agent, other trusted individuals
- Letters, notes, videos to family members memorializing wishes, reflections, life lessons

PORTFOLIO UPDATES

HFA Investment Committee

At High Falls Advisors, we believe there is great value in a team-based approach to portfolio management. Our investment committee is comprised of subject matter experts with a diverse range of experience including financial planning, investment management, financial policy and industry compliance. The committee meets regularly to discuss portfolio performance, and to assess investment risks and opportunities. Together, they advise the portfolio managers and vet portfolio changes to ensure we follow an informed investment philosophy that serves our clients' best interest.



James T. Englert, CFP®, EA
President and CEO
Portfolio Manager



Ken Burke, CPA, CBEC®
CFO & General Manager



Michael Donnelly, CFP®, MBA
Chief Investment Officer
Portfolio Manager



Debbie King, CRPC®
Financial Advisor



Russell Mandrino
Financial Advisor



Jennifer Vogler, Esq.
Chief Compliance Officer

Market Trends Analysis and Core Market Index Portfolio

The primary focus of our Market Trends Analysis (MTA) strategy is to minimize downside risk throughout the investment experience.

Core Market Index Portfolio (CMIP) is a low-cost index alternative providing a long-term investment strategy that remains invested throughout all market conditions.

Starting in late January 2018, market volatility increased and growth has since been flat. With interest rates rising, we have adjusted fixed income investments in the MTA strategy, starting with coming out of the short-term bond fund in December, and the mortgage backed security fund and aggregate bond index fund in January and February. All have been temporarily replaced with a short-term bond fund that invests in short-term floating rate bonds. [See side bar on next page >](#)

Despite the increase in volatility, some areas of the market appear to be strengthening. Small Cap stocks have grown to hit new highs and Mid Cap stocks are starting to grow, but Large Cap funds continue to lag other markets. The growth of Small/Mid Cap stocks can be an indicator of potential advances in the broader stock market by the end of this year, but all sources indicate interest rates will continue to rise, which could negatively impact bond prices.

Following the CMIP investment strategy, we rebalanced all accounts in January to bring allocations back to the target models. Unlike MTA portfolios that have modified bond positions due to technical trading indicators, CMIP portfolios will continue to maintain holdings throughout all market conditions.

It is important to note this is the first time in many years that we've had a rising interest rate environment. Bond fund prices may decline in the short term as interest rates rise, but rising rates equate to

increasing dividend payments. When dividends are reinvested, more shares can be purchased when fund prices are lower. An increase in shares helps the overall value of a position increase that much faster when prices start to recover.

Many have asked the question: what's the difference between an individual bond and a bond fund? An individual bond has a set maturity date and a fixed rate of interest from start to end date. If held to maturity, the principal investment is returned to the bond holder. However, if a bond holder decides to sell prior to maturity, current interest rates may influence an increase or decrease in the price a buyer is willing to pay. Bond funds are different from individual bonds in that bond funds contain hundreds and sometimes thousands of bonds. Bonds are bought and sold by fund managers to meet the demands of shareholder purchases and liquidations. One advantage of bond funds is that the fund manager may be able to take advantage of rising rates through new purchases, however, liquidations may require bonds to be sold at lower prices than what was originally paid. A disadvantage of a bond fund is that a shareholder can be impacted by downward price fluctuation in a rising interest rate environment. However, the compounding effect of reinvested dividends can help speed up the recovery when rates start to stabilize.

Although equity markets are experiencing volatility, earnings reports from individual corporations are positive and there continues to be positive economic data for the U.S. markets and even more so for international markets. The new tax laws passed in late 2017 may even boost corporate earnings looking ahead. However, for the short term, we expect equity markets will continue to increase in volatility. Using that information, we continue to monitor and evaluate our current and future holdings.





WHAT IS A FLOATING-RATE NOTE?

A floating-rate note, also known as a floater or FRN, is a debt instrument with a variable interest rate. A floating rate note's interest rate, since it is not fixed, is tied to a benchmark such as the U.S. Treasury bill rate, LIBOR, the fed funds or the prime rate. Floaters are mainly issued by financial institutions and governments, and they typically have a two- to five-year term to maturity.

Source: www.investopedia.com/terms/f/frn.asp

Enhanced Allocation Strategy

The Enhanced Allocation Strategy (EAS) is a buy-and-monitor investment strategy that uses actively managed mutual funds to create a diversified portfolio.

In managing the portfolio, EAS uses asset allocation as the primary risk management tool. We also consider alternative investments like real estate to further enhance risk management. Our fund lineup is reviewed periodically to ensure a fund continues to fit within the portfolio objectives.

We are in the process of replacing funds that no longer meet our investment criteria based on recent performance and anticipated changes in the market or economic cycle. In the previous edition of **The Financial Advocate**, we discussed rebalancing the portfolio to increase fixed income and international stock diversification in anticipation of rising rates, slowing growth in the U.S. economy and the potential for increased market volatility in 2018. As predicted, market volatility has increased and rising interest rates have caused downward pressure on bond funds.

We are currently holding heavier positions in shorter-term bond funds, which reduces the portfolio's interest rate sensitivity. As interest rates increase, bond values decrease and by investing in shorter-term bond funds, we can mitigate the negative impact of rising rates.

With populist policies in Europe, global trade tensions and the recent tariff tweets, the market in 2018 has been volatile but has also been somewhat range-bound. The S&P 500 has traded between 2,580 and 2,800 since early February. We view these levels as support and resistance, respectively, and won't know the direction of the market until we see a breakout in either direction. We will continue to research opportunities for diversification and strategies to manage risk.

If you have questions about the recent portfolio updates, other investment strategies or your own personal financial plan, we're here to offer our support. Your advisor or any member of our portfolio management team would be happy to discuss your circumstances in more detail and we encourage you to engage in a review of your situation when convenient.

Five Wishes

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The fifth wish is what you want your loved ones to know. This wish may include particulars about your funeral service, burial and/or charities that should receive memorial contributions. It may include expressions of love, forgiveness and acceptance to family and friends. You may also use this wish to express how you want to be remembered.

Completing the Five Wishes document may inspire you to leave other memories, words of wisdom or instructions through written letters or digital recordings to relay important information, and share values and life lessons with your loved ones.

These exercises all serve to start conversations about illness, end-of-life care and legacy planning. By documenting your expectations, it may be easier for family, friends and caregivers to make hard decisions and fulfill your wishes. It allows for some peace of mind in times of great stress and emotion.

If you or your family members are interested in learning more about the Five Wishes document, please contact your advisor or attorney. To learn more about Aging With Dignity, please visit www.agingwithdignity.org.



Life in Retirement

By Maureen J. Pilato, CFP® Senior Financial Advisor

*As of this publication we have changed the name of this series from “Life After Retirement” to “Life in Retirement.” Upon further reflection, the word “after” gives a notion of finality. Although retirement is the end of one’s working career, for many, it signifies the beginning of something great. We hope you continue to find enjoyment and inspiration as you read our clients’ stories of their lives IN retirement.

In our last installment, we featured Kurt Engel and his work with the MAC Academy. MAC stands for Making A Connection, a program that serves refugee students who have relocated to Rochester, teaching them important life skills such as financial and personal wellness. Little did we know our feature would mark the beginning of Kurt’s rise to Rochester fame. In March of 2018, Kurt was named a winner of the ESL Jefferson Award for his work with MAC Academy, where he volunteers his time multiple hours per day, seven days a week.

The Jefferson Awards Foundation is a national organization whose mission is “To power others to have maximum impact on the things they care about most.” Jefferson awards are presented on local and national levels, to volunteers who do exceptional things in and for their communities. There were more than 11,000 nominations nationwide for this prestigious award and Kurt was one of five local winners. Kurt and his fellow Jefferson Award recipients were honored at a luncheon in May, where they were given an opportunity to share their experience with volunteers, family and friends.

Kurt remarked, “Each day, I get to laugh a lot; sometimes cry, but each and every day I am inspired by the courage, perseverance and intestinal fortitude of our MAC refugee youth. Each day, a hurdle—be it large or small—is overcome and a reason to celebrate. Besides that, they think I’m smart.”

A few weeks later, Kurt was honored again at the 27th Annual Faith in Action Celebration, presented by the Greater Rochester Community of Churches Faith in Action Network. The GRCC Faith in Action Network’s mission is “To gather congregations and people from diverse communities to build relationships and support initiatives based on spiritual and community values that advocate, model and celebrate basic human rights.”

Kurt’s meaningful commitment to the MAC Academy students has earned much-needed publicity for the program, which is currently funded by a federal grant administered by New York State. The grant expires in May 2019. In addition to the time he spends teaching and mentoring students, Kurt and program leader, Alla DeWolf, are lobbying state and federal legislators to continue their funding, applying for educational grants, and seeking student sponsorships from individuals and organizations. If you are interested in learning more about the MAC Academy and their students, visit their website at www.oaces.net/programs/youth/mac-academy.

Many High Falls Advisors clients know one another from years past. If you are interested in sharing your life in retirement story or if you know of another retiree’s story, please contact Maureen Pilato at mpilato@highfallsadvisors.com.





An Interview with Kosal Gelser

By Kenneth J. Burke, CPA, CBEC®, CFO and General Manager

I am pleased to introduce you to a new team member, Kosal Gelser. Kosal joined us in March 2018 as a Client Service Associate (CSA). He works with our Financial Advisors to complete paperwork, process client requests and ensure we maintain a high level of client service.

As I have done with others in the past, I sat down with Kosal and asked him a number of questions so you can get to know him even before you meet him in person.

What do you like best about working in client service? I enjoy meeting new people with different personalities. Also, meeting successful people and having them share their secrets of success.

What do you like most about working at HFA? I'm a people person. I like to work with them and help solve problems. HFA is a client-focused firm, so I have an opportunity to assist clients with their needs and interact with many people each day.

Were there any surprises about HFA that you didn't expect when you decided to join us? Before joining HFA, I was a Service Manager/Head Teller at a local bank, which was transactional-style customer service. The biggest surprise for me was the consistent and recurring service we give clients and the opportunity to get to know them.

What are the things you typically help clients and advisors with? Processing account applications, distribution requests and trading activity.

What are your future career plans? I want to become a Financial Advisor and work directly with clients to help them achieve their financial goals.

What is your definition of success? Giving 100% and putting forth my very best effort in all that I do.

When would you like to retire? I plan to retire at 65. I'm looking forward to traveling and will likely work part-time doing something I enjoy.

What role do you see technology playing in the future for our clients? Technology will continue to provide our clients with access to more information and better control over their finances.

What role does technology play in your life? I'm not a big user of social media, but I do take advantage of the convenience of online banking and other tools.

What do you like to do outside of work? I host parties and coordinate wine tours in the Finger Lakes. My favorite wineries are Casa Larga, Dr. Frank and Fox Run. I enjoy working out, hiking and anything outdoors. Also, I'm in the process of becoming a certified CrossFit instructor.

Do you believe Social Security will be available to you when you retire? I don't think it will, so I'm not considering it as part of my retirement plan.

Have you ever met anyone famous? A few years ago, I met Jason Mraz, an American singer and songwriter, at RIT.

What recommendation would you have for a client entering into retirement today? Plan for the future and be clear about what you want ahead of time.

The Lightning Round
Hogwarts or Harvard? Hogwarts
Mustard or Mayo? Mayo
Yankees or Red Sox? Red Sox
Bills or Patriots? Bills
Dividend or Growth Investing? Growth
Coke or Pepsi? Neither
Facebook or Twitter? Facebook
Red or White Wine? White



Kosal Gelser, Client Service Associate (CSA) and Ken Burke, General Manager

“I enjoy meeting new people with different personalities. Also, meeting successful people and having them share their secrets of success.”



The Financial Advocate



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Rochester, NY 14604

Carefully navigating your financial future.



It's your future. You need to make financial decisions based on a myriad of factors. With a wide range of services, we can remain as flexible as you need us to be. Planning, investments and advice are just the beginning.

We work with you, to help you achieve your goals.



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Our advisors or members of our tax team, if appropriate, would be happy to meet with you to discuss in further detail the information provided in this newsletter.

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