

J. F. Williams Co.

INC.

Jim Williams

Tax reform is now real and as we expected in early November, the changes are fairly consequential.

Personal Income Tax Changes –

Generally lower tax brackets – There are still 7 brackets, albeit with slightly lower rates.

An increase in the child tax credit to \$2,000 (refundable up to \$1,400), beginning to phase out after income levels of \$400,000 for marrieds filing joint and \$200,000 for all other taxpayers

Alimony – Treatment is reversed from prior law treatment and now the payor may not deduct alimony paid and the income is not reportable to the recipient.

Gain Exclusion on Disposition of the Primary Residence – These changes were not included in the final legislation.

Pass-throughs - A maximum 20% deduction for “qualified business income” of pass-through entities (subject to various limitations), which begins to phase out at \$157,500 for most service providers (\$315,000 phase-out for married taxpayers). (This is a personal invitation for anyone who understands this particular part of the legislation to give me a call.)

Alternative Minimum Tax (AMT) – While AMT for individuals is not repealed, the exclusion and threshold amounts are increased substantially. This is welcome news. Far fewer taxpayers will be caught up in the AMT net.

Reduced Itemized Deductions –

Larger Standard Deduction - The standard deduction has been made larger (double), partly by absorbing the existing personal exemptions. The benefit to individual taxpayers will depend on their own family situation.

Itemized deductions for State and Local Taxes are limited to \$10,000 per year.

Casualty Losses and certain Miscellaneous Itemized Deductions are no longer deductible.

The itemized deduction for Medical expenses has been retained, and a lowering of the AGI threshold to 7½% has been made retroactive to 2017 and applies to 2018 as well. After 2018 the threshold reverts to the pre-2017 level.

Mortgage interest deduction will be capped on the first \$750,000 of mortgage principal. Prior existing mortgages and home purchase contracts entered into by 12/15/2017 may be grandfathered under the old \$1.0 million limit. The Act also completely eliminated the deduction for all “home equity indebtedness” (if the funds are not used to acquire, build or substantially improve the primary residence or designated second home.)

Estate Tax - The estate tax exemption is doubled to \$11.2 million for individuals and \$22.4 million for married couples.

Other changes -

Other areas of change include: elimination of the Pease Limitation for phase-down of itemized deductions; lower and simplified brackets for estates and trusts; expanded limits on charitable contributions; and others.

Corporate Tax Reduction

It seems to me that this change will mostly impact mid-size domestic companies that are not multinational. These entities have not had the ability to squeeze taxes through offshoring techniques, and may be the biggest beneficiaries of the corporate tax cut. At a minimum, I would expect that the increased earnings will tend to support the now-higher stock prices we see.

Going Forward

Later this year we expect to have access to tested and validated tax planning software to help us work through these issues with you.

We will continue to optimize our client's posture with respect to tax-drag on the portfolio, and general management of tax consequences. Notably, the proposal requiring all taxpayers to use FIFO on their sales of securities was dropped from the final bill.

The increased standard deduction may give rise to more use of a “bunching of deductions” strategy in order to gain tax benefit in alternating years, while relying on the standard deduction in off years.

If you are already charitably inclined

- It may make sense to look into moving appreciated assets into a donor-advised fund

which can be used for the next few to several years for making charitable gifts. This can be used as a part of a deduction bunching strategy.

- Also, if you are, and/or your spouse is, over 70 1/2 and if you have IRA funds you would be willing to use to support your charitable giving, the Qualifying Charitable Distribution (QCD) can be a powerful tax minimization technique.

You may recall that last summer, Matt was named CEO of the firm. Last month, Matt and I completed a transaction that resulted in Matt being the majority owner of the firm. We are both quite pleased with this circumstance. While I intend to reduce my work time somewhat going forward, I plan to be here in my usual capacity (with respect to client-matters) for the foreseeable future.

Ⓛ Reminder to get your quarterly Credit Report from: Innovis <https://www.innovis.com/personal/creditReport>

The table below shows the returns through December 31, 2017 for selected investment asset classes. In most cases, the results below are appropriate benchmarks for the related mutual funds in your investment portfolio.

| Asset Class | Data Series | YTD | 1 Yr. | 3 Yrs. | 5 Yrs. |
|--|---|-------|-------|--------|--------|
| Ultrashort Bonds | BofA Merrill Lynch 6-Month US Treasury Bill Index | 0.95 | 0.95 | 0.62 | 0.43 |
| Short Term Municipal Bonds | BofA Merrill Lynch 1-3 Year US Municipal Securities Index | 0.99 | 0.99 | 0.69 | 0.77 |
| Short Term Corporate Bonds | BofA Merrill Lynch 1-5 Year US Corporate and Government Index | 1.28 | 1.28 | 1.31 | 1.15 |
| Short Term Global Bonds | Citi World Government Bond Index 1-2 Years (hedged to USD) | 0.88 | 0.88 | 0.81 | 0.74 |
| Intermediate Term Municipal Bonds | Bloomberg Barclays Municipal Bond Index 7 Years | 4.49 | 4.49 | 2.40 | 2.44 |
| Intermediate Corporate Bonds | Bloomberg Barclays U.S. Credit Index | 6.18 | 6.18 | 3.63 | 3.24 |
| Intermediate Global Bonds | Citi World Government Bond Index 1-5 Years (hedged to USD) | 1.13 | 1.13 | 1.21 | 1.23 |
| US Marketwide Core 1 & 2; Vector | Russell 3000 Index | 21.13 | 21.13 | 11.12 | 15.58 |
| US Large Cap Market | S&P 500 Index | 21.83 | 21.83 | 11.41 | 15.79 |
| US Large Cap Value | Russell 1000 Value Index | 13.66 | 13.66 | 8.65 | 14.04 |
| US Small Cap Market | Russell 2000 Index | 14.65 | 14.65 | 9.96 | 14.12 |
| US Small Cap Value | Russell 2000 Value Index | 7.84 | 7.84 | 9.55 | 13.01 |
| Real Estate Investment Trusts | Dow Jones U.S. Select REIT Index | 3.76 | 3.76 | 4.97 | 9.09 |
| International Marketwide Core & Vector | MSCI World ex USA Index (net div.) | 24.21 | 24.21 | 7.36 | 7.46 |
| International Large Cap Market | MSCI World ex USA Value Index (net div.) | 21.04 | 21.04 | 6.26 | 6.64 |
| International Large Cap Value | | | | | |
| International Small Cap Market | MSCI World ex USA Small Cap Index (net div.) | 31.04 | 31.04 | 12.96 | 11.37 |
| International Small Cap Value | MSCI Emerging Markets Index (net div.) | 37.28 | 37.28 | 9.10 | 4.35 |
| Emerging Markets | | | | | |
| Ultrashort Bonds | BofA Merrill Lynch 6-Month US Treasury Bill Index | 0.95 | 0.95 | 0.62 | 0.43 |

January 12, 2017