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Hello Everyone,

Summer 2018 is here and we hope you enjoy some long anticipated lingering days, free of responsibility and rife with possibility.

We continue to follow the tax changes ahead, and keep a watchful eye on the market and related investments.

As always, please don't hesitate to call if you need anything or if there are any changes in your life requiring adjustments to your plan.

Dan, Matt & Dina

"Summertime is always the best of what might be."

-Charles Bowden

Summer 2018

A Parent-Child Conversation About College Costs

Marriage and Money: Taking a Team Approach to Retirement

Cartoon: Pie Contest

What is the difference between a tax deduction and a tax credit?



Mid-Year Planning: Tax Changes to Factor In



tax cuts that apply to individuals) expire at the end of 2025. Here are some of the significant changes you should factor in to any mid-year tax planning. You should also consider reviewing your situation with a tax professional.

New lower marginal income tax rates

In 2018, there remain seven marginal income tax brackets, but most of the rates have dropped from last year. The new rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Most, but not all, will benefit to some degree from the lower rates. For example, all other things being equal, those filing as single with taxable incomes between approximately \$157,000 and \$400,000 may actually end up paying tax at a higher top marginal rate than they would have last year. Consider how the new rates will affect you based on your filing status and estimated taxable income.

Higher standard deduction amounts

Standard deduction amounts are nearly double what they were last year, but personal exemptions (the amount, \$4,050 in 2017, that you could deduct for yourself, and potentially your spouse and your dependents) are no longer available. Additional standard deduction amounts allowed for the elderly and the blind remain available for those who qualify. If you're single or married without children, the increase in the standard deduction more than makes up for the loss of personal exemption deductions. If you're a family of four or more, though, the math doesn't work out in your favor.

Itemized deductions — good and bad

The overall limit on itemized deductions that applied to higher-income taxpayers is repealed, the income threshold for deducting medical expenses is reduced for 2018, and the income

limitations on charitable deductions are eased. That's the good news. The bad news is that the deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area, and miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible. Other deductions affected include:

- **State and local taxes** — Individuals are only able to claim an itemized deduction of up to \$10,000 (\$5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- **Home mortgage interest deduction** — Individuals can deduct mortgage interest on no more than \$750,000 (\$375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior \$1 million limit will continue to apply. No deduction is allowed for interest on home equity loans or lines of credit unless the debt is used to buy, build or substantially improve a principal residence or a second home.

Other important changes

- **Child tax credit** — The credit has been doubled to \$2,000 per qualifying child, refundability has been expanded, and the credit will now be available to many who didn't qualify in the past based on income; there's also a new nonrefundable \$500 credit for dependents who aren't qualified children for purposes of the credit.
- **Alternative minimum tax (AMT)** — The Tax Cuts and Jobs Act significantly narrowed the reach of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.
- **Roth conversion recharacterizations** — In a permanent change that starts this year, Roth conversions can't be "undone" by recharacterizing the conversion as a traditional IRA contribution by the return due date.

A Parent-Child Conversation About College Costs



A weighty decision

Most teens are not financially experienced enough to drive a \$100,000 or \$200,000 decision, especially one that has the potential to impact them for most or all of their 20s or longer. So parent guidance is critical.

If you're the parent of a high school student who's looking ahead to college, it's important to have a grown-up conversation with your child about college costs. A frank discussion can help both of you get on the same page, optimize the college search process, and avoid getting blindsided by large college bills.

An initial conversation: a, b, and c

As a parent, you need to take the lead in this conversation because most 16-, 17-, and 18-year-olds are not financially experienced enough to drive a \$100,000 or \$200,000 decision. One approach is to start off saying something like: "We will have saved 'a' when it's time for you to start college, and after that we should be able to contribute 'b' each year, and we expect you to contribute 'c' each year." That will give you a baseline of affordability when you start targeting colleges.

A more in-depth conversation: borrow x, pay back y

Once you start looking at colleges, you'll see that prices vary, sometimes significantly. If a college costs more than $a + b + c$ above, you'll have to fill the gap. The best way to try and do this is with college grants or scholarships (more on that in a minute). Absent grant aid, you'll need to consider loans. And here is where you should have a more detailed conversation with your child in which you say: "If you borrow 'x' you will need to pay back 'y' each month after graduation." Otherwise, random loan figures probably won't mean much to a teenager.

You can use an online calculator to show your child *exactly* what different loan amounts will cost each month over a standard 10-year repayment term. For example, if College 1 will require your child to borrow a total of \$16,000 at 5%, that will cost \$170 each month for 10 years. If College 2 requires \$24,000 in loans, that will cost \$255 each month. A loan amount of \$36,000 for College 3 will cost \$382 per month, and \$50,000 for College 4 will cost \$530 a month, and so on. The idea is to take an abstract loan amount and translate it into a month-to-month reality.

But don't stop there. Put that monthly loan payment into a larger context by reminding your child about other financial obligations he or she will have after college, such as a cell phone bill, food, rent, utilities, car insurance. For example, you might say: "If you attend College 3 and have a student loan payment of \$382 every month, you'll also need to budget \$40 a month for your phone, \$75 for car insurance, \$400 for food..." and so on. The goal is to help your child understand the cost of real-world expenses and

the long-term financial impact of choosing a more expensive college that will require more loans.

Even with a detailed discussion, though, many teenagers may not be able to grasp how their future lives will be impacted by student loans. Ultimately, it's up to you — as a parent — to help your child avoid going into too much debt. How much is too much? The answer is different for every family. One frequently stated guideline is for students to borrow no more than what they expect to earn in their first year out of college. But this amount may be too high if assumptions about future earnings don't pan out.

To build in room for the unexpected, a safer approach might be to borrow no more than the federal government's Direct Loan limit, which is currently a total of \$27,000 for four years of college (\$5,500 freshman year, \$6,500 sophomore year, and \$7,500 junior and senior years). Federal loans are generally preferable to private loans because they come with an income-based repayment option down the road that links a borrower's monthly payment to earned income if certain requirements are met. Whatever loan amount you settle on as being within your range, before committing to a college, your child should understand the total amount of borrowing required and the resulting monthly payment after graduation. In this way, you and your child can make an informed financial decision.

If there's any silver lining here, it's that parents believe their children may get more out of college when they are at least partly responsible for its costs, as opposed to having a blank check mentality. Being on the hook financially, even for just a small amount, may encourage your child to choose courses carefully, hit the books sufficiently, and live more frugally. Later, if you have the resources, you can always help your child repay his or her student loans.

Target the right colleges

To reduce the need to borrow, spend time researching colleges that offer grants to students whose academic profile your child matches. Colleges differ in their aid generosity. You can use a net price calculator — available on every college website — to get an estimate of how much grant aid your child can expect at different colleges. For example, one college may have a sticker price of \$62,000 but might routinely offer \$30,000 in grant aid, resulting in an out-of-pocket cost of \$32,000. Another college might cost \$40,000 but offer only \$5,000 in grant aid, resulting in a higher \$35,000 out-of-pocket cost.

Marriage and Money: Taking a Team Approach to Retirement



Open communication and teamwork are especially important when it comes to saving and investing for retirement.

Now that it's fairly common for families to have two wage earners, many husbands and wives are accumulating assets in separate employer-sponsored retirement accounts. In 2018, the maximum employee contribution to a 401(k) or 403(b) plan is \$18,500 (\$24,500 for those age 50 and older), and employers often match contributions up to a set percentage of salary.

But even when most of a married couple's retirement assets reside in different accounts, it's still possible to craft a unified retirement strategy. To make it work, open communication and teamwork are especially important when it comes to saving and investing for retirement.

Retirement for two

Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can only be held in one person's name, although a spouse is typically listed as the beneficiary who would automatically inherit the account upon the original owner's death. Taxable investment accounts, on the other hand, may be held jointly.

Owning and managing separate portfolios allows each spouse to choose investments based on his or her individual risk tolerance. Some couples may prefer to maintain a high level of independence for this reason, especially if one spouse is more comfortable with market volatility than the other.

However, sharing plan information and coordinating investments might help some families build more wealth over time. For example, one spouse's workplace plan may offer a broader selection of investment options, or the offerings in one plan might be somewhat limited. With a joint strategy, both spouses agree on an appropriate asset allocation for their combined savings, and their contributions are invested in a way that takes advantage of each plan's strengths while avoiding any weaknesses.

Asset allocation is a method to help manage investment risk; it does not guarantee a profit or protect against loss.

Spousal IRA opportunity

It can be difficult for a stay-at-home parent who is taking time out of the workforce, or anyone

who isn't an active participant in an employer-sponsored plan, to keep his or her retirement savings on track. Fortunately, a working spouse can contribute up to \$5,500 to his or her own IRA and up to \$5,500 more to a spouse's IRA (in 2018), as long as the couple's combined income exceeds both contributions and they file a joint tax return. An additional \$1,000 catch-up contribution can be made for each spouse who is age 50 or older. All other IRA eligibility rules must be met.

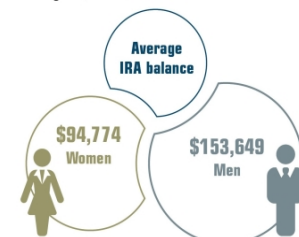
Contributing to the IRA of a nonworking spouse offers married couples a chance to double up on retirement savings and might also provide a larger tax deduction than contributing to a single IRA. For married couples filing jointly, the ability to deduct contributions to the IRA of an active participant in an employer-sponsored plan is phased out if their modified adjusted gross income (MAGI) is between \$101,000 and \$121,000 (in 2018). There are higher phaseout limits when the contribution is being made to the IRA of a nonparticipating spouse: MAGI between \$189,000 and \$199,000 (in 2018).

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution to the account of a nonparticipating spouse. You can make IRA contributions for the 2018 tax year up until April 15, 2019.

Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.

Savings Gap

Despite career gains, women tend to retire with fewer assets than men.

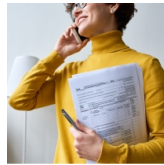


Source: Employee Benefit Research Institute, 2017 (2014 data)

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What is the difference between a tax deduction and a tax credit?

Tax deductions and credits are terms often used together when talking about taxes.

While you probably know that they can lower your tax liability, you might wonder about the difference between the two.

A tax deduction reduces your taxable income, so when you calculate your tax liability, you're doing so against a lower amount. Essentially, your tax obligation is reduced by an amount equal to your deductions multiplied by your marginal tax rate. For example, if you're in the 22% tax bracket and have \$1,000 in tax deductions, your tax liability will be reduced by \$220 ($\$1,000 \times 0.22 = \220). The reduction would be even greater if you are in a higher tax bracket.

A tax credit, on the other hand, is a dollar-for-dollar reduction of your tax liability. Generally, after you've calculated your federal taxable income and determined how much tax you owe, you subtract the amount of any tax credit for which you are eligible from your tax obligation. For example, a \$500 tax credit will reduce your tax liability by \$500, regardless of your tax bracket.

The Tax Cuts and Jobs Act, signed into law late last year, made significant changes to the individual tax landscape, including changes to several tax deductions and credits.

The legislation roughly doubled existing standard deduction amounts and repealed the deduction for personal exemptions. The higher standard deduction amounts will generally mean that fewer taxpayers will itemize deductions going forward.

The law also made changes to a number of other deductions, such as those for state and local property taxes, home mortgage interest, medical expenses, and charitable contributions.

As for tax credits, the law doubled the child tax credit from \$1,000 to \$2,000 for each qualifying child under the age of 17. In addition, it created a new \$500 nonrefundable credit available for qualifying dependents who are not qualifying children under age 17. The tax law provisions expire after 2025.

For more information on the various tax deductions and credits that are available to you, visit [irs.gov](https://www.irs.gov).