[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

Registered Investment Advisor | www.VintageFS.com | Summer 2018 Vol. XXXIV No. II

From the Grapevine...

Its's almost summertime and that brings the Ann Arbor Summer Festival which begins June 8 and runs through July 1. Vintage is pleased to be a sponsor again this year. We'll be the presenting sponsor for a fun band from LA called Dustbowl Revival. Look for the Vintage staff and a fun night on Wednesday, June 27. Details at a2sf.org.

Summer also brings our annual Top of the Fair party on Thursday, July 19 to kick off the Ann Arbor Art Fairs. Stop by for drinks and appetizers and show us what you bought at the fair.

With tax season over, our advisors have hit the road. Jim Burns went to NYC to meet with American Funds managers, Todd Perry flew to Nashville for an investment conference and Jack McCloskey headed to Phoenix for the annual NAPFA spring conference. John Owens is also headed to NYC to meet with JP Morgan funds before he starts work on his Masters degree this summer.

BE ENERGY AND TAX EFFICIENT AT THE SAME TIME

With the sun shining and summer finally here, it's time to get those housing projects underway. And if you've been considering making some Green improvements to your home, there may be a significant tax credit available.

The Residential Energy Efficient Property Credit allows a tax credit of up to 30% of the cost for qualified solar electric property, small wind energy property, geothermal heat pump property, and fuel cell property. Those costs can even include any labor required for installation and assembly.

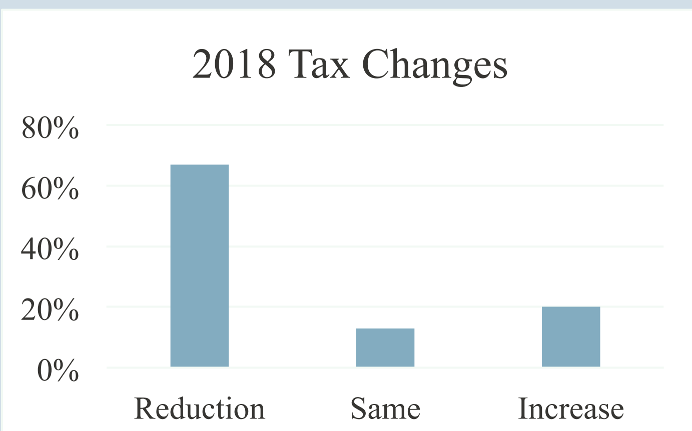
The credit does have some restrictions, including one on fuel cell property that limits it to $500 for each one-half kilowatt of capacity. And being a non-refundable credit, you can't receive a credit greater than what your tax bill is in a given year. However, unused portions of the credit can be carried forward. The current 30% credit will phase down over the next few years. It decreases to 26% in 2020 and 22% in 2021.

Should you choose to go Green and make a home improvement like this, be sure to check with the contractor and ensure the changes you're making qualify for the credit. And, as always, make sure your tax planner knows long before tax time as this may create some tax planning strategies. And your energy efficiency project may result in some tax efficiencies as well.

2018 TAXES—
WILL YOU GET A TAX CUT?

Our Vintage tax team just finished our eleventh tax season and completed over 200 returns this year. But next season will be very different due to the Tax Cuts and Jobs Act passed late last year. The new changes include an overall reduction of tax rates, elimination of personal exemptions, increase in the standard deduction, and other changes for small-business owners and corporations.

We've been taking advantage of the new law since before it was signed in order to help reduce our client's tax bills. In looking ahead to the 2018 filings and the impact of the new law, we've compiled some analysis based on the returns we prepared this year, and the results were quite intriguing.



In 2017, more than two-thirds of our tax prep clients itemized their deductions, as opposed to taking the standard deduction. If their situation were exactly the same in 2018, only 28% would be itemizing, a significant reduction due to the new tax law. That being said, the strategies for itemized deductions have changed. See our blog article on New Tax Strategies (https://www.vintagefs.com/new-tax-strategies) for ways to reduce your tax bill.

One of the key questions we often hear from clients is whether they'll actually receive a tax cut given the changes. And the good news is that about two-thirds of our tax prep clients would see a tax cut in 2018. Those cuts range substantially based on varying client situations. We estimate that 13% of our tax clients will see their tax bill remain about the same.

Unfortunately, around 20% of our clients will see a tax increase under the Tax Cuts and Jobs Act. In particular, we anticipate that our clients who file as single are more likely to see a tax hike. The loss of personal exemptions, smaller increase in the standard deduction and the structure of the new tax brackets tend to hit high income singles harder than joint filers.

Some filers may see an increase as a result of the elimination of miscellaneous itemized deductions, elimination of the home equity loan interest deduction, and capping of state and local tax deductions.

Regardless of whether you're expecting a tax cut or increase, the importance of tax planning cannot be understated. At Vintage, we have an experienced tax team and access to cutting edge technology to analyze your tax situation, both now and in future years, to develop a comprehensive plan to minimize your tax bills.

Our tax team has had a few weeks to recover and it's not too early to start planning for 2018. Feel free to contact any of them below to work out strategies for this year.

Todd Perry, CFP®, CIMA
Jack McCloskey, MS, CFP®, RTRP
Jim Burns, CFP®, CPA
John Owens, EA

OPTIMIZING RETIREMENT INCOME

One of the questions we often get is how to take income at retirement. While it is easy to simply start drawing money each month from an IRA or brokerage account, there can be huge tax implications over time.

Many investors seek to minimize their income taxes by drawing first from their taxable brokerage account and letting a Traditional IRA or 401(k) continue to compound tax deferred. This can significantly reduce taxes, sometimes to nearly zero, in the first few years of retirement, especially if Social Security benefits haven't yet been claimed. Unfortunately, that low tax bill at age 65 could lead to a much larger tax hit by age 70 and a much higher tax bill over the retirement years.

At age 70 ½ it's time to start taking Required Minimum Distributions (RMDs) from Traditional IRA and 401(k) plans. Every dollar taken is taxed at ordinary income tax rates which are higher than the dividend and capital gain rates. In addition, there's no benefit to delaying Social Security beyond age 70 as the benefits no longer increase (prior to age 70, benefits increase about 8% each year). The combination of Social Security benefits and the RMDs can easily push retirees into a higher income tax bracket and there's little you can do at that point to lower your taxable income. And people retiring today may get an additional tax hit as the new tax rate reductions are scheduled to end after 2025, which may push them into an even higher tax bracket.

Another related question is when to start taking Social Security benefits. While changes made a couple years ago reduced the number of claiming strategies, there are important considerations around longevity and taxes that need to be factored into the retirement income plan.

Another income source may be Roth IRA or 401(k) withdrawals. Retirees with significant balances in these plans have the ability to pull money out tax free which allows for much more flexibility in determining taxable versus spendable income. In building a retirement income portfolio, it's often good to consider having accounts that offer some tax diversification. A balance of regular taxable accounts which may be taxed at lower capital gain and dividend rates, tax deferred Traditional IRA and 401(k) plans, and Roths that provide tax free income can work very well. No one knows what the income tax rates will be in the future and having some diversification helps reduce the risk of high tax bills.

At Vintage, we look at all of these variables and more to develop a long term plan to minimize income taxes and optimize the spendable retirement income. One strategy we like is making partial Roth conversions during the early retirement years when taxable income may be very low. By pulling enough to stay in a low income tax bracket, Traditional IRA withdrawals can be taxed at a low rate in the early retirement years and help minimize the amount of RMDs that may be taxed at a higher rate after age 70. We use software that can calculate the impact of this tax strategy over the years and it often amounts to hundreds of thousands of dollars.

Everyone's retirement situation is different based on health, income sources, desire to work and much more. Optimizing your retirement income is a complex issue and the benefits of professional help can be very valuable. We've got Washtenaw County's largest team of fee only Certified Financial Planners at Vintage ready to help. Feel free to contact us to optimize your retirement income plan.

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management, financial planning, and tax preparation.
Minimum portfolio $500,000 (401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office at (734) 668-4040 or (800) 666-9237 or e-mail:
Succeed@VintageFS.com
Or visit our website at www.VintageFS.com

- Retirement Planning
- Education Funding
- Investment Management
- Estate Planning
- Insurance Review
- Trust Investment Management
- Income Tax Preparation

Plan to succeed.

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