PARTNERS IN FINANCIAL PLANNING

Partners in Financial Planning, LLC
421 S College Ave
Salem, VA 24153
540-444-2930
Fax 540-266-3620
info@partnersinfinancialplanning.com
www.partnersinfinancialplanning.com

Dear Clients and Friends,

Welcome to the January edition of our "Partnering With You" newsletter. We hope you had an enjoyable New Year and Holiday Season.

Estimated tax payments for the fourth quarter of 2017 are due on January 15th. If you're not sure if you need to make a quarterly payment - or if you have misplaced your vouchers - we are here to help.

Jim, Pam, Ruth, Nikie, Todd, Cheryl, Sandy, Kimberly, Chris, Stephen and Rich

Partnering With You - January 2018

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Tax Cuts and Jobs Act of 2017

The Tax Cuts and Jobs Act of 2017 was signed into law late in 2017. Some of the highlights of the act are as follows.

The new brackets break down like this:

Individual Taxpayers

Income $0-$9,525 - 10% of taxable income

$9,526-$38,700 - 12% of taxable income

$38,701-$82,500 - 22% of taxable income

$82,501-$157,500 - 24% of taxable income

$157, 501-$200,000 - 32% of taxable income

$200,001-$500,000 - 35% of taxable income

$500,001+ - 37% of taxable income

Joint Return Taxpayers

Income $0-$19,050 - 10% of taxable income

$19,051-$77,400 - 12% of taxable income

$77,401-$165,000 - 22% of taxable income

$165,001-$315,000 - 24% of taxable income

$315,001-$400,000 - 32% of taxable income

$400,001-$600,000 - 35% of taxable income

$600,000+ - 37% of taxable income

Other provisions: the standard deduction is basically doubled, to $12,000 (single) or $24,000 (joint), $18,000 (head of household), and in an interesting provision, persons who are over 65, blind or disabled can add $1,300 to their standard deduction.

The bill calls for no personal exemptions for 2018. And the Pease limitation, a gradual phaseout of itemized deductions as taxpayers reached higher income brackets, has been eliminated.

Despite the hopes of many taxpayers, the dreaded alternative minimum tax (AMT), remains in the bill. The individual exemption amount is $70,300; for joint filers it’s $109,400. But for the first time, the AMT exemption amounts will be indexed to inflation.

Interestingly, the new tax bill retains the old capital gains tax brackets—based on the prior brackets. The 0% capital gains rate will be in place for individuals with $38,600 or less in income ($77,200 for joint filers), and the 15% rate will apply to individuals earning between $38,600 and $452,400 (between $77,400 and $479,000 for joint filers). Above those amounts, capital gains and qualified dividends will be taxed at a 20% rate.

In addition, the rules governing Roth conversion recharactsrizations will be repealed. Under the old law, if a person converted from a traditional IRA to a Roth IRA, and the account lost value over the next year and a half, they could simply undo (recharacterize) the transaction, no harm no foul. Under the new rules, recharactization would no longer be allowed.

For many taxpayers who itemize deductions, the taxable income number will be higher under the new tax plan, because many itemized deductions have been reduced or eliminated. Among them: there will be a $10,000 limit on how much any individual can deduct for state and local income tax and property tax payments.

The mortgage deduction will be limited to $750,000 of principal (down from a current $1 million limit); any mortgage payments on amounts above that limit will not be deductible. In addition, interest from home equity debt will no longer be deductible. However, the charitable contribution deduction limit will rise from 50% of a person’s adjusted gross income to 60% under the new bill.

What about estate taxes? The bill doubles the estate tax exemption from, currently, $5.6 million (projected 2018) to $11.2 million; $22.4 million for couples. Meanwhile, Congress maintained the step-up in basis, which means that people who inherit low-basis stock will see the embedded capital gains go away upon receipt.

As things stand today, all of these provisions are due to “sunset” after the year 2025, at which point the entire tax regime will revert to what we have now.

Don't Delay: The Potential Benefits of Starting to Save Now

For long-term investment goals such as retirement, time can be one of your biggest advantages. That's because time allows your investment dollars to do some of the hard work for you through a mathematical principle known as compounding.

The snowball effect

The premise behind compounding is fairly simple. You invest to earn money, and if those returns are then reinvested, that money can also earn returns.

For example, say you invest $1,000 and earn an annual return of 7% — which, of course, cannot be guaranteed. In year one, you'd earn $70 and your account would be worth $1,070. In year two, that $1,070 would earn $74.90, which would bring the total value of your account to $1,144.90. In year three, your account would earn $80.14, bringing the total to $1,225.04 — and so on. Over time, if your account continues to grow in this manner, the process can begin to snowball and potentially add up.

Time and money

Now consider how compounding works over long time periods using dollar-cost averaging (investing equal amounts at regular intervals), a strategy many people use to save for retirement.[1] Let's say you contribute $120 every two weeks. Assuming you earn a 7% rate of return each year, your results would look like this:

Time period	Amount invested	Total accumulated
10 years	$31,200	$45,100
20 years	$62,400	$135,835
30 years	$93,600	$318,381

After 10 years, your investment would have earned almost $14,000; after 20 years, your money would have more than doubled; and after 30 years, your account would be worth more than three times what you invested.[2] That's the power of compounding at work. The longer you invest and allow the money to grow, the more powerful compounding can become.

The cost of waiting

Now consider how much it might cost you to *delay* your investing plan. Let's say you set a goal of accumulating $500,000 before you retire. The following scenarios examine how much you would have to invest on a monthly basis, assuming you start with no money and earn a 7% annual rate of return (compounded monthly).

Time frame to retirement	40 years	35 years	30 years	25 years
Retirement accumulation goal	$500,000	$500,000	$500,000	$500,000
Annual rate of return	7%	7%	7%	7%
Monthly contribution needed	$190	$278	$410	$617

So the less time you have to pursue your goal, the more you will likely have to invest out of pocket. The moral of the story? Don't put off saving for the future. Give your investment dollars as much time as possible to do the hard work for you.

[1] *Dollar-cost averaging does not ensure a profit or prevent a loss. It involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Review your progress periodically and be prepared to make adjustments when necessary.*

[2] *Assumes 26 contributions per year, compounded bi-weekly.*

These hypothetical examples are used for illustrative purposes only and do not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary. Rates of return will vary over time, particularly for long-term investments. Investments with the potential for higher rates of return also carry a greater degree of risk of loss.

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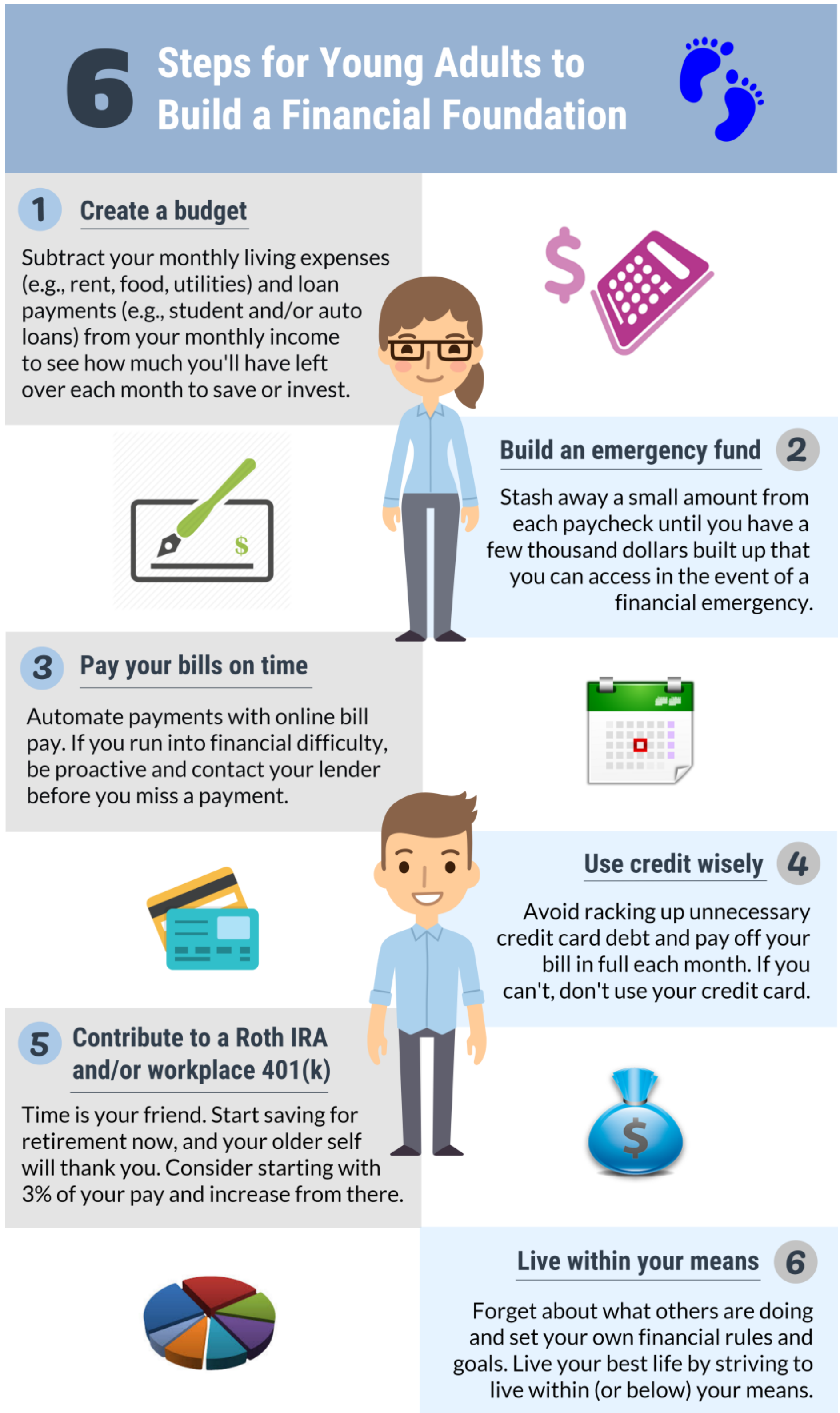
Infographic: Financial Tips for Young Adults



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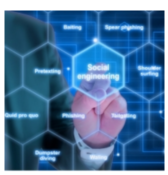
Partners in Financial Planning, LLC is a fee-only financial planning and investment management firm located in Salem, Virginia. Our mission is to provide comprehensive, caring financial guidance that allows our clients to spend less time worrying about their finances and more time enjoying their lives.

What can I do to crack down on robocalls?

You may not mind if a legitimate robocall provides a helpful announcement from your child's school or an appointment reminder from a doctor's office. But sadly, criminals often use robocalls to collect consumers' personal information and/or conduct various scams. Newer "spoofing" technology displays fake numbers to make it look as though calls are local, rather than coming from overseas, which could trick more people into answering the phone.

Robocalls have been illegal since 2009 (unless the telemarketer has the consumer's prior consent). In mid-2017, federal agencies announced they are ramping up enforcement by fining violators and encouraging blocking technologies. What should you do if you want to help put an end to this nuisance?

1. Don't answer calls when you don't recognize the phone number. If you pick up an unwanted robocall, just hang up. Don't answer "yes" or "no" questions, provide personal information, or press a number to "opt out." Responding to the call in any way verifies that it has reached a real number and could prompt additional calls.
2. Look into robocall blocking solutions that may be offered by your phone service provider. If they're available, you may need to follow specific instructions to "opt in." Otherwise, consider a mobile app or cloud-based service designed to block robocalls; some of them are free or cost just a few dollars.
3. Consider registering your phone number on the National Do Not Call Registry. While taking this step can help mitigate the amount of robocalls you receive, it's only a partial solution to the problem. The Federal Trade Commission advises consumers whose numbers are on the registry but still receive unwanted calls to report robocall violations at complaints.donotcall.gov. The phone numbers provided by consumers will be released each day to companies that are working on call-blocking technologies, which largely depend on "blacklists" with numbers associated with multiple complaints.



How can I protect myself from digital deception?

Imagine that you receive an email with an urgent message asking you to verify your banking information by clicking on a link. Or maybe you get an enticing text message claiming that you've won a free vacation to the destination of your choice — all you have to do is click on the link you were sent. In both scenarios, clicking on the link causes you to play right into the hands of a cybercriminal seeking your sensitive information. Just like that, you're at risk for identity theft because you were tricked by a social engineering scam.

Social engineering attacks are a form of digital deception in which cybercriminals psychologically manipulate victims into divulging sensitive information. Cybercriminals "engineer" believable scenarios designed to evoke an emotional response (curiosity, fear, empathy, or excitement) from their targets. As a result, people often react without thinking first due to curiosity or concern over the message that was sent. Since social engineering attacks appear in many forms and appeal to a variety of emotions, they can be especially difficult to identify.

Take steps to protect yourself from a social engineering scam. If you receive a message conveying a sense of urgency, slow down and read it carefully before reacting. Don't click on suspicious or unfamiliar links in emails, text messages, and instant messaging services. Hover your cursor over a link before clicking on it to see if it will bring you to a real URL. Don't forget to check the spelling of URLs — any mistakes indicate a scam website. Also be sure to look for the secure lock symbol and the letters *https:* in the address bar of your Internet browser. These are signs that you're navigating to a legitimate website.

Never download email attachments unless you can verify that the sender is legitimate. Similarly, don't send money to charities or organizations that request help unless you can follow up directly with the charitable group.

Be wary of unsolicited messages. If you get an email or a text that asks you for financial information or passwords, do not reply — delete it. Remember that social engineering scams can also be used over the phone. Use healthy skepticism when you receive calls that demand money or request sensitive information. Always be vigilant and think before acting.

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