

# EPIC CAPITAL

Everyone has a story. Let your legacy tell yours.

## INSIGHTS

### Who Is Your Trusted Contact?

*This vital investment account question should be answered sooner rather than later.*

**I**nvestment firms have a new client service requirement.

You do not have to supply this information, but it is certainly welcomed. The request is being made, with your best interest in mind, to lower the risk that someone crooked might someday make investment decisions on your behalf.<sup>1</sup>

**Financial scams rob U.S. seniors of more than \$36 billion per year.** As a CNBC article notes, 27% of these frauds represent abuse or exploitation committed by third parties; 23% are wrongdoings committed by family members or trustees.<sup>1</sup>

**The trusted contact request is a response to this reality.** The Financial Industry Regulatory Authority (FINRA) now demands that investment firms “make reasonable efforts” to acquire the name and contact info of a “trusted person,” who they can get in touch with if they feel fraud or financial exploitation is occurring or if they suspect the investor is suffering notable cognitive decline.<sup>2</sup>

Investment firms may now put a hold on disbursements of cash or securities from accounts if they suspect the withdrawals or transactions amount to financial exploitation. In such circumstances, they are asked to get in touch with the investor, the trusted contact, and adult protective services agencies or law enforcement agencies if necessary.<sup>2</sup>

**Who should your trusted contact be?** At first thought, the answer seems obvious: the person you trust the most. Yes, that individual is probably the best choice – but keep some factors in mind.

**Ideally, your trusted contact is financially savvy, or at least financially literate.** You may trust your spouse, your sibling, or one of your children more than you trust anyone else; how much does that person know about investing and financial matters?

#### Inside this Issue

#### FEATURES

- Who Is Your Trusted Contact?
- Talking to Your Heirs About Your Estate Plan
- The Major 2018 Federal Tax Changes
- Life Insurance Products with Long-Term Care Riders

**The trusted contact should behave ethically and respect your privacy.** This person could be given confidential information about your investments. Is there any chance that, in receipt of such information, they might behave in an unprincipled way?

# Talking to Your Heirs About Your Estate Plan

*They should not be left ill-informed or unaware*



Talking about “the end” is not the easiest thing to do, and this is one reason why some people never adequately plan for the transfer of their wealth. Those who do create estate plans with help from financial and legal professionals sometimes leave their heirs out of the conversation.

**Have you let your loved ones know a little about your estate plan?** This is decidedly a matter of personal preference: you may want to share a great deal of information with them, or you may want to keep most of the details to yourself. Either way, they should know some basics.

Having this talk can become easier when it is a values conversation, not a money conversation.

**Values driven estate planning.** You can let your heirs know that your values are at the core of the decisions you have made. You need not tell them how much they will inherit. You may let them know about the planning steps you have taken to make a difficult time a bit easier.

For example, you can tell your loved ones that you have a will and/or a revocable living trust. In all probability, your executor or successor trustee has been informed of his or her future responsibilities – but other heirs may not know who the executor or successor trustee will be.

You can tell them that you have an advance health care directive in place and inform them who you have named as an agent to make health care decisions on your behalf if you cannot do so. You can provide the contact information for your estate planner, your CPA, your retirement planner, and any insurance, legal, and medical professionals you consult. Have your heirs ever met these people? Tell your heirs the role they have played for you, your family, or your company and why the judgment of these professionals should be trusted.

**Do people beyond your household need to know any of this?** Think about it for a second. If you have grandchildren, nieces, or nephews, do they figure into your estate plan? Is it appropriate to let them know that you have made an estate-planning decision or two on their behalf? How about charities or non-profits you have supported – have you notified them of your intent to make a gift from your estate and could knowledge of your decision better facilitate the process? How about your business partner(s)? Do they need to be informed of particular estate-planning intentions you have?

*“You can provide the contact information for your estate planner, your CPA, your retirement planner, and any insurance, legal, and medical professionals you consult.”*

Obviously, you must keep certain details close to the vest. Keeping everything to yourself, however, can be problematic. Are your heirs aware of the location of a copy of your health care proxy? Might they discover that you have planned for some of your estate to transfer to charity only after your death? Dilemmas and surprises like these may be avoided through communication – the type of communication that anyone planning an estate should make a priority.

Not every couple or individual does, though. BMO Wealth Management asked the high net worth clients it advises if they had disclosed the location of their wills and power of attorney forms with their heirs. Thirteen percent of respondents said their heirs had no clue; 25% said “only my spouse and I” knew the location of the documents.<sup>1</sup>

A 2017 Caring.com poll determined that just 42% of Americans had gone so far as to draw up a will, let alone an estate plan. So, if you have planned for the transfer of your wealth, you are ahead of many of your peers. Just see that your intentions, and some specific details, are effectively communicated.<sup>1</sup>

# The Major 2018 Federal Tax Changes

*Comparing the old rules with the new*

**The Tax Cuts and Jobs Act made dramatic changes to federal tax law.** It is worth reviewing some of these changes as 2019 approaches and households and businesses refine their income tax strategies.

**Income tax brackets have changed.** The old 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% brackets have been restructured to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. These new percentages are slated to apply through 2025. Here are the thresholds for these brackets in 2018.<sup>1,2</sup>

Bracket	Single Filers	Married Filing Jointly or Qualifying Widower	Married Filing Separately	Head of Household
10%	\$0 - \$9,525	\$0 - \$19,050	\$0 - \$9,525	\$0 - \$13,600
12%	\$9,525 - \$38,700	\$19,050 - \$77,400	\$9,525 - \$38,700	\$13,600 - \$51,800
22%	\$38,700 - \$82,500	\$77,400 - \$165,000	\$38,700 - \$82,500	\$51,800 - \$82,500
24%	\$82,500 - \$157,500	\$165,000 - \$315,000	\$82,500 - \$157,500	\$82,500 - \$157,500
32%	\$157,500 - \$200,000	\$315,000 - \$400,000	\$157,500 - \$200,000	\$157,000 - \$200,000
35%	\$200,000 - \$500,000	\$400,000 - \$600,000	\$200,000 - \$300,000	\$200,000 - \$500,000
37%	\$500,000 and up	\$600,000 and up	\$300,000 and up	\$500,000 and up

**The standard deduction has nearly doubled.** This compensates for the disappearance of the personal exemption, and it may reduce a taxpayer’s incentive to itemize. The new standard deductions, per filing status:

- \* Single filer: \$12,000 (instead of \$6,500)
- \* Married couples filing separately: \$12,000 (instead of \$6,500)
- \* Head of household: \$18,000 (instead of \$9,350)
- \* Married couples filing jointly & surviving spouses: \$24,000 (instead of \$13,000)

The additional standard deduction remains in place. Single filers who are blind, disabled, or aged 65 or older can claim an additional standard deduction of \$1,600 this year. Married joint filers are allowed to claim additional standard deductions of \$1,300 each for a total additional standard deduction of \$2,600 for 2018.<sup>2,3</sup>



**The state and local tax (SALT) deduction now has a \$10,000 ceiling.** If you live in a state that levies no income tax, or a state with high income tax, this is not a good development. You can now only deduct up to \$10,000 of some combination of a) state and local property taxes or b) state and local income taxes or sales taxes per year. Taxes paid or accumulated as a result of business or trade activity are exempt from the \$10,000 limit. Incidentally, the SALT deduction limit is just \$5,000 for married taxpayers filing separately.<sup>1,4</sup>

**The estate tax exemption is twice what it was.** Very few households will pay any death taxes during 2018-25. This year, the estate tax threshold is \$11.2 million for individuals and \$22.4 million for married couples; these amounts will be indexed for inflation. The top death tax rate stays at 40%.<sup>2,4</sup>

**More taxpayers may find themselves exempt from Alternative Minimum Tax (AMT).** The Alternative Minimum Tax was never intended to apply to the middle class – but because it went decades without inflation adjustments, it sometimes did. Thanks to the tax reforms, the AMT exemption amounts are now permanently subject to inflation indexing.

AMT exemption amounts have risen considerably in 2018:

- \* Single filer or head of household: \$70,300 (was \$54,300 in 2017)
- \* Married couples filing separately: \$54,700 (was \$42,250 in 2017)
- \* Married couples filing jointly & surviving spouses: \$109,400 (was \$84,500 in 2017)

These increases are certainly sizable, yet they pale in proportion to the increase in the phase-out thresholds. They are now at \$500,000 for individuals and \$1 million for joint filers as opposed to respective, prior thresholds of \$120,700 and \$160,900.<sup>2</sup>

**The Child Tax Credit is now \$2,000.** This year, as much as \$1,400 of it is refundable. Phase-out thresholds for the credit have risen substantially. They are now set at the following modified adjusted gross income (MAGI) levels:

- \* Single filer or head of household: \$200,000 (was \$75,000 in 2017)
- \* Married couples filing separately: \$400,000 (was \$110,000 in 2017)<sup>2</sup>

**Some itemized deductions are history.** The list of disappeared deductions is long and includes the following tax breaks:

- |  |   |
|--|---|
| * Home equity loan interest deduction                      | * Investment fees and expenses deduction                                  |
| * Moving expenses deduction                                | * IRA trustee fees (if paid separately)                                   |
| * Casualty and theft losses deduction (for most taxpayers) | * Convenience fees for debit and credit card use for federal tax payments |
| * Unreimbursed employee expenses deduction                 | * Home office deduction   |
| * Subsidized employee parking and transit deduction        | * Unreimbursed travel and mileage deduction                               |
| * Tax preparation fees deduction                           |   |

Under the conditions set by the reforms, many of these deductions could be absent through 2025.<sup>5,6</sup>

**Many small businesses have the ability to deduct 20% of their earnings.** Some fine print accompanies this change. The basic benefit is that business owners whose firms are LLCs, partnerships, S corporations, or sole proprietorships can now deduct 20% of qualified business income\*, promoting reduced tax liability. (Trusts, estates, and cooperatives are also eligible for the 20% pass-through deduction.)<sup>4,7</sup>

*“Doctors, lawyers, consultants, and owners of other types of professional services businesses meeting the definition of a specified service business\* may make enough to enter the phase-out range for the deduction”*

Not every pass-through business entity will qualify for this tax break in full, though. Doctors, lawyers, consultants, and owners of other types of professional services businesses meeting the definition of a specified service business\* may make enough to enter the phase-out range for the deduction; it starts above \$157,500 for single filers and above \$315,000 for joint filers. Above these business income thresholds, the deduction for a business other than a specified service business\* is capped at 50% of total wages paid or at 25% of total wages paid, plus 2.5% of the cost of tangible depreciable property, whichever amount is larger.<sup>4,7</sup>

\* See H.R. 1 – The Tax Cuts and Jobs Act, Part II—Deduction for Qualified Business Income of Pass-Thru Entities

**We now have a 21% flat tax for corporations.** Last year, the corporate tax rate was marginally structured with a maximum rate of 35%. While corporations with taxable income of \$75,000 or less looked at no more than a 25% marginal rate, more profitable corporations faced a rate of at least 34%. The new 21% flat rate aligns U.S. corporate taxation with the corporate tax treatment in numerous other countries. Only corporations with annual profits of less than \$50,000 will see their taxes go up this year, as their rate will move north from 15% to 21%.<sup>2,4</sup>

**The Section 179 deduction and the bonus depreciation allowance have doubled.** Business owners who want to deduct the whole cost of an asset in its first year of use will appreciate the new \$1 million cap on the Section 179 deduction. In addition, the phaseout threshold rises by \$500,000 this year to \$2.5 million. The first-year “bonus depreciation deduction” is now set at 100% with a 5-year limit, so a company in 2018 can now write off 100% of qualified property costs through 2022 rather than through a longer period. Please note that bonus depreciation now applies for used equipment as well as new equipment.<sup>1,7</sup>

**Like-kind exchanges are now restricted to real property.** Before 2018, 1031 exchanges of capital equipment, patents, domain names, private income contracts, ships, planes, and other miscellaneous forms of personal property were permitted under the Internal Revenue Code. Now, only like-kind exchanges of real property are permitted.<sup>7</sup>

**This may be the final year for the individual health insurance requirement.** The Affordable Care Act instituted tax penalties for individual taxpayers who went without health coverage. As a condition of the 2018 tax reforms, no taxpayer will be penalized for a lack of health insurance next year. Adults who do not have qualifying health coverage will face an unchanged I.R.S. individual penalty of \$695 this year.<sup>1,8</sup>



# Life Insurance Products with Long-Term Care Riders

*Are they worthwhile alternatives to traditional LTC policies?*



**The price of long-term care insurance has really gone up.** If you are a baby boomer and you have kept your eye on it for a few years, chances are you have noticed this. Last year, the American Association for Long-Term Care Insurance (AALTCI) noted that a 60-year-old couple would pay an average of \$3,490 a year in premiums for a standalone LTC policy.<sup>1</sup>

Changing demographics and low interest rates have prompted major insurance carriers to stop offering standalone LTC coverage. As *Forbes* recently noted, about 750,000 consumers purchased long-term care policies in 2002; just 89,000 bought an LTC policy in 2016. The demand for the coverage remains, however – and in response, innsurers have introduced new options.<sup>2</sup>

**Recently, hybrid LTC products have outsold traditional LTC policies.** Some insurers now offer “cash rich” whole life insurance policies with an option to add long-term care benefits. Other insurance products feature similar riders.<sup>2</sup>

As these insurance products are doing “double duty” (i.e., one policy or product offering the potential for two kinds of coverage), their premiums are costlier than that of a standalone LTC policy. On the other hand, you can get what you want from one insurance product rather than having to pay for two.<sup>3</sup>

*“If you end up not needing long-term care, you will still be able to justify the premiums you paid”*

Hybrid LTC policies provide a death benefit, a percentage of which will go to your heirs. If you end up not needing long-term care, you will still be able to justify the premiums you paid. You can also often add a rider to adjust the LTC benefits of the policy in view of inflation.<sup>4,5</sup>

**The basics of securing LTC coverage applies to these policies.** The earlier in life you arrange the coverage – and the healthier you are – the lower the premiums will likely be. If you are not healthy enough to qualify for a standalone LTC insurance policy, you still might qualify for a hybrid policy – sometimes no medical exam by a nurse is necessary.<sup>1,3</sup>

**Hybrid policies have critics as well as fans.** Their detractors point out the characteristic that puts off potential policyholders the most: lump sums are commonly required to fund them. An up-front payment in the range of \$75,000-\$100,000 is typical.<sup>4</sup>

Funding the whole policy with one huge premium payment has both an upside and a downside. You will not contend with potential premium increases over time, as owners of stock LTC policies often do. (Many retirees wish they could lock in the monthly or quarterly premiums on their traditional LTC policies.) On the other hand, the return on the insurance product may be locked into interest rates lower than you would prefer.<sup>4</sup>

Since the focus of a hybrid LTC policy is on long-term care coverage, the death benefit may be relatively small compared with that of a pure life insurance policy. Also, the premiums paid on hybrid policies are not tax deductible; premiums paid on conventional LTC policies are.<sup>4,5</sup>

Another reality is that many seniors have little or no need to buy life insurance. Their heirs will not face inheritance taxes, since their estates will not exceed estate tax thresholds. Moreover, their adult children may be financially stable. Providing a lump sum to these heirs is a nice financial gesture, but the opportunity cost of paying life insurance premiums may be significant.

Life insurance can play a crucial role in estate planning, however – and if a policy manages to combine life insurance and long-term care coverage feature, it may prove useful in multiple ways.

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**If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us**

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## INSIGHTS

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