Announcer:
Thank you for coming out here tonight. I appreciate everyone investing their time here tonight. We have a great presentation lined up. I think you're really going to enjoy it. And I think you'll learn a lot, as well. The topic, as you know, is "How 2018 Tax Reform Impacts You." We're going to talk about the Tax Cuts and Jobs Act, who benefits, and who may potentially pay more. We're also going to talk about what corporations are actually doing with the tax cuts that they got. We'll go into the investment landscape, talking about investments that are likely to be positively affected by tax reform and also some investments where there's potentially some risk. We're also going to have a Q&A. So, this can be an interactive presentation, particularly at the end.

Our speaker tonight is uniquely qualified to talk about this topic. His name is George Koeltl. He is a Certified Financial Planner. He's been with Reby Advisors since 2005. Prior to joining Reby, he was a Wealth Advisor at UBS and Merrill Lynch. He's also a Corporate Tax Auditor for the New York State Department of Tax and Finance, and he has passed the CPA examination, as well. He's a Chartered Retirement Planning Counselor and a Certified Divorce Financial Analyst. Please join me in welcoming George Koeltl.

George Koeltl, CFP®:
Let's hope none of you need my Certified Divorce Financial Analysis credentials. We're going to talk about taxes. One of the "Reby-isms" that we have at our firm is, "It's not what you earn, it's what you keep." And, so, taxes play a very big part, certainly in retirement planning and even in the wealth accumulation phase. So, we're going to try to touch on those things. We're going to try to open, keep your eyes open, because if you're going to plan taxes for 2018, we can't wait till November, or December, or the day we go to see our tax accountant. It has to begin today. So, we're going to try to highlight some things, and you're going to have homework to do, to go home, take a look at your current 2017 tax return that you've filed or are prepared to file, check out certain things that we're going to highlight tonight, and then you're going to be better served to plan for 2018.

I know this is too small for everybody to read, but this is what we call "Schedule A" on your 1040 tax return. That's where we get to have fun by taking away some of the income that we put on the front page of the tax form. We have medical and dental expenses, taxes we pay, interest, gifts to charity, and casualty and theft losses, and miscellaneous deductions. There are changes that have happened. For medical expenses, it's going to be 7.5% for this year and for 2018, and then it's going to go back to 10%. But, for most of us out here, medical expenses make up one of our biggest deductions on our tax return. For a couple, if you have Medicare and Supplemental Insurance, that's going to run about $8,000, maybe $8,500. If you're thoughtful enough to have Long Term Care Insurance, that would be for a couple around another $12,000. So, now we're up to $20,000. And, on top of that, you have non-deductible medical expenses like hearing aids and things like that, plus dental expenses. Now we know why George Washington had wooden teeth. It was very expensive to go to the dentist, so he went to the carpenter. But, in jest. So, what I want to say here tonight is, medical expenses are a big part of this year's 2017 tax return, but it's going to be even a bigger part going forward because you're going to lose some of your other ones. And, they're going to be reduced. So, what we want to do with medical expenses, especially dental, is bunch them. What does that mean? That means, if Jack has a toothache, Kathy needs to have a toothache. So, we bunch all of our medical expenses into one year.

Taxes you paid. Now this is a big one you've heard about because if you're in Connecticut, New York, New Jersey, California, Massachusetts, or any of the higher tax states, we used to get state and local taxes that you paid, like income taxes. On top of that, you used to get your property taxes. And, if you had second homes, you had more property taxes. So, that's going to be capped at $10,000, and that's going to have a big impact on a lot of folks, because you could be losing $10, $20, $30,000 worth of deduction in that spot.

Interest you paid. Really, no big effect other than the fact that you're capped at $750,000 on the basis of mortgage interest. So, you have a more than $750,000 loan, you're not going to be able to deduct more interest than that level, but that's only going forward and not backwards.

Gifts to charity stay the same, though. In a way, it increases the amount that you can deduct in one particular year. It goes from 50% to 60% and only affects you if you're giving gifts to like your college of $250,000 or so.

Casualty and theft losses. They go away unless you live in disaster areas and, for this particular meeting, I just checked, and New York and Connecticut aren't disaster areas, so it doesn't matter.

And, then, the one that's really going to impact a lot of folks, at least that we work with, is the Miscellaneous deductions, because that's where you would put up your fees. So, any fees that you would have for management fees and stuff, that would be there.

So, what I want to tell you is, there's been some adjustment here, and whatever your total deductions were in 2017, they're not going to be the same in 2018. But, there's a positive side. The Standard Deduction has gone up for a married couple from $13,000 to $26,200. When you get 10 to 24, but you get the personal exemptions, as well, still. So, you got $26,200. So, what I want you to do for homework – now, everybody pay attention – is, you're going to take all your expenses and you're going to take away, you're going to cap these at 10. You're going to take away your Miscellaneous, and you're going to check to see if you're north of $26,200. Because, if you're not, then you're not going to itemize. And, if you're not going to itemize, then we have to do other things to make sure we maximize our deductions.

So, what can we do, because if you don't itemize your income taxes, you have no charitable deductions anymore. You have to itemize to get a charitable deduction. So, for those of us who are lucky enough to be over 70-1/2, you have to take what they call a "Required Minimum Distribution" from your IRA every year. What we can do is give our money to charity by utilizing our Required Minimum Distribution. So, I'll give you an example, I give $10,000 to multiple charities over the course of the year, I have to take $50,000 out of my IRA because the government said, "It's time. You waited long enough. You have to take that money." As long as I call Roseanne – that's the only way I can explain it – call Roseanne and tell her what charities you want her to have Schwab issue checks for, Schwab will send you those checks, and you will then be able to take it out of your IRA. You cannot take the money and then give it to the charity. That's not how it works. It has to go to Schwab, to you in the name of the charity, and then you give it to the charity. It also has to come out of the RMD portion. So, you have to do it. If you have a $40,000 Required Minimum Distribution, you have to give it out of the first $40,000. If you don't, and you try to do it later, there's a good chance Schwab won't even be allowed to write the check because you'll have already used up all your Required Minimum Distributions. So, my advice to all of you, "Call Roseanne." She's going to be a busy girl.

There are some additional changes for families. The Affordable Care Act had a mandate that if you didn't buy insurance, you had to pay a penalty. That's gone. Tax rates are reduced. The old 15% is 12%, 25% is 22%, and so on and so on. But, they're all reduced a little bit. Child Tax Credit doubles to $2,000. For your estate planning purposes, it doubles the exemption on the estate tax. So, it went from $5 million whatever to $10 million whatever per person. So, now it's 22/4. I don't think anybody in this room will be paying federal estate taxes. And, expanded use of the 529. So, if you guys have been starting 529's for your grandchildren, or you had them for your children, and there was always, "I can't use this for private high school," and we're always wishing we could, you can now, but it's capped at $10,000. So, if you had a prep school, and you had money in the 529, you can now use your 529 for that prep school. But, max at $10,000.

Before we get there, I just want to say one thing, and nobody's talking about it. And, I don't understand why because it's been the most punitive tax on individuals since 1986, and that's the Alternative Minimum Tax. And, the Alternative Minimum Tax was put into effect in 1986 to catch all the people who were wealthy. But, they never indexed it for inflation, so what wound up happening was, any married couple making, say, north of $180,000 – husband's working, wife's working, you're in the northeast – that's not rock 'n rolling, you could be subject to the Alternative Minimum Tax. And, what would happen there? Well, you'd lose all your deductions right upfront except for mortgage interest. And, maybe, if you had a mine somewhere or oil depletion, those are the things they allowed you. So, they also phased it out. So, after $164,000, the phase out started, by the time you got to like $250,000, you had no deduction on the Alternative Minimum. They changed it. So, now they made the deduction from $70,000 to

$109,000. That's good. But, the phase out doesn't start until over $1,000,000. So, really, the people that are making between say $250,000 and $500,000, they'll never see the Alternative Minimum Tax again. The people over that, did they stretch it out a little bit more than they had to? Maybe. But, at least, the Alternative Minimum Tax is hitting probably 60% of middle class families. It doesn't get talked about, but it's a big deal.

Corporate tax law changes. When Reby Advisors started talking about tax law changes in January 1st of 2017, because after Trump came in, that was the number one item on the agenda, "Well, we're going to cut corporate taxes." We were excited about it. And, so, we've been talking about it, and we're excited for our clients, because we are the investor class. This is how we make our living in retirement. How does our portfolio perform? So, this is all good.

Is it good for investors? Corporate income tax cut from 35% to 21%. Is that good? I'd put a check mark next to it.

Repeal the Alternative Minimum Tax. I don't know all that many companies that were paying it because, again, it's a way to keep a company that is hiding everything they can to pay some tax, but they repealed it.

Exempts corporation from future US taxation on overseas earnings. It's not as clear cut as that, but the idea of this law, and it does cap certain things, is to make sure that companies don't move their stuff to Ireland or to some other – Bermuda – or some other place. So, they're not taxing them, you wouldn't bring the money home if you were going to be taxed at 35%. Right? Why would you bring it home and pay 35% tax when you can leave it there, invest it over there, and pay no tax. So, they made it better.

This is a big thing. Reduced the tax rate on repatriated foreign earnings. As I said a second ago, you had a boatload of companies that didn't want to pay 35% on all of their subsidiaries' overseas earnings. You didn't have to as long as you left it there. Interest rates being so low, even if a company wanted to share with you all those great profits they made overseas, rather than bring the money home and pay 35% tax, they'd borrow the money at 1.8% and pay you a dividend out of that. It was getting convoluted. We needed to get that money back where it belonged, which is in the investors' hands and the corporate hands so that they can create.

And, then, the 20% deduction on Personal Income Tax for Pass Through Income of Small Businesses. I am not going to talk too much about this. I'm not an accountant. I just know that if you make more than $315,000 on your Schedule C on your tax return, you may be losing some of it. Don't hold me to that.

So, how do corporations benefit? Broad reduction taxation for individuals is for stronger consumer spending. Having a few extra bucks in your paycheck is great, and we spend it because we can. But, nothing makes a consumer more confident than watching his 401K go up or his investment statement going up. So, when you hear about how confident consumers are, it's that 401K, it's those statements that you get from Reby that say how awesome you're doing. That's what causes you to be confident, because nobody's confident when it's coming the other way.

Lower corporate tax rate at 100%. Expensing may boost investment. This has been tried before. It should. Don't know.

Improve free cashflow for higher earnings. Bottom line – to make stock prices go higher, earnings need to go higher. There's a correlation between the two. More profits, more earnings. And more earnings, higher stock prices. This tax law makes that happen. And, then, the whole thing about repatriation.

So, was it needed? Whether you believe in tax policy, whether you believe in Democrat, Republican, anything, bottom line was, we were back here, and all these other countries were a better place to have a business. And, now, we're here. So, of the largest countries, Germany's the only one that has a slightly lower tax rate. So, we needed to be here in order to be a leader in the economic world.

What are we going to do with this money? What are companies going to do? Well, I read yesterday, JP Morgan said that, "Eighty billion dollars is going to come through buy backs." Buy backs are awesome for you guys because that means somebody else is buying the same stock that you own. It's the company themselves. Who cares? It's $80 billion of stock being bought. If I'm an owner, there's less out there, that's good for us.

Dividends. The last time I checked, dividends are really what make earnings… Higher and higher dividends are what make the S&P 500 grow.

Mergers and Acquisitions. We'll see.

Capital Investments. We'll see. That's all about whether companies can believe that if they merge with somebody else, it'll make the company stronger. And, capital investments, do I need more stuff? Am I selling more stuff? If I sell more stuff, I need to have more capital investment.

Employee Compensation. We'd love to see that. It's been a little flat for the last 10 or 12 years, since 2008. And, now with this extra money and lower unemployment, companies have plenty of money to give raises. That's awesome. That would be a beautiful thing to see.

So, 17% invested in domestic capital. AT&T to invest a billion. They're constantly increasing that high speed networks and delivery of the internet and programming and everything. Comcast, same kind of guy. And, Exxon Mobil, a new company, $50 billion.

13% Employee Investment. Lockheed Martin, that's beautiful to see. $5 billion in pensioners. We know the pension system is somewhat rickety. So, that's a beautiful thing to see. JP Morgan hiring 4,000 employees. Opening branches. That's great. FedEx – pay increases and another $1.5 billion in pensions. Those are beautiful things to see.

And, then, finally, the increased consumer spending. Corporations will benefit from consumer spending stimulus that's driven by tax benefits. Again, the whole concept of everything getting better. When consumers get better, they get more raises, they spend it. Estimates of $100 billion consumer tax savings in 2018 and $200 billion in 2019. And, finally, Americans spend most of their free cash flow, which is good for consumer brands and the economy as a whole. I did want to say something about this, but let's go on.

So, many of the raises and bonuses announced are one-time deals. Again, we'd like to see this continue on and on and on, but we don't know.

Which investments benefit the most from tax reform? Because there are more domestically-oriented small cap stocks, just by its nature, are going to be more positively impacted by the lowering of the US tax code.

Mid-caps next. And, then, the large cap and mega-caps. What that doesn't include, Folks, is this repatriation of $2 to $3 trillion that's overseas that's going to come in this year. The Tax Law requires the companies to bring in those repatriated earnings this year. It isn't a choice. What they do have, though, is a choice on how they pay the tax. They can do it over an eight-year period. But, that $2 to $3 trillion is coming in in this sector. So, don't be feeling that you got to run all your money over to small cap stocks to be taking advantage of this tax law. That wouldn't be a good thing to do.

Now, I want to have a little tournament, so to speak, by asking the crowd here, "Who do you think has the most earnings to repatriate of all the companies in the United States today?"

Audience:
Apple.

George Koeltl, CFP®:
Good answer. Who do you think is two?

Audience:
Exxon Mobil.

George Koeltl, CFP®:
No. That's not the right answer. Microsoft is the right answer. Cisco Systems. These are big numbers, though. Apple -- $256 billion, sitting, already earned. They don't have to work real hard for this money. It's in the bank. And that's going to be coming over. They're going to have a big tax bill. But, again, instead of paying 35% on that money, they're going to be paying anywhere between 12% and 8%. Microsoft -- $126 billion. Cisco -- $98 billion. Google -- $92 billion. Oracle -- $59 billion. General Electric -- $83 billion. They need that. Amgen -- $38 billion. Gillet Sciences - $34. Qualcomm -- $28. Coca Cola -- $25. All this money is coming back into this country, making it into the corporate tax coffers and coming back to you. More likely, you, than the employees, via buy backs and dividends. And, that's why we were so excited in 2017. We got a lot of those things happened already. They're not going to happen in 2018. The stock market anticipated this happening. So, a lot of this has been booked. However, what the stock market, I believe, is waiting to see is, they heard all this money is coming, they want to see it coming. So, we're going to have in two weeks, we're going to have companies reporting. And, they're going to be reporting about how much their buy backs are going to be. They're going to be reporting about how much they're increasing their dividends. They're going to be reporting about any potential merges they're thinking about. They're going to be reporting about higher earnings anyway because the economy's good. But, I think we're in a show-me kind of stage now. We've heard how great it's going to be, but we really have no proof. Do we? Do we have any proof? Nobody's seen anything yet. So, we're going to see it over the next couple of weeks. We'll see if that changes. Right now, all everybody talks about is the deficit. We put a trillion-dollar hole in the deficit. You know what? Last time I checked, the tax cut never hurt economic activity.

So, here are the different industries that could be affected by the changes in the tax code. So, you would have thought that tech would be way up here. Again, this doesn't take into account all those repatriated earnings. Telecom and industrials and consumer staples, materials, consumer discretionary and financials. My daughter works for HSBC, and I was talking to her boyfriend, and they had a difficult time. They had booked all these great losses from 2008. You remember when the banking system almost went under. Well, the positive side from the bank's point of view is, they've recovered, but they have all those losses from that period of time. Well, when you reduce the tax rate by 40%, those powerful losses that they created also got reduced on their balance sheet by 40%. So, that's picked accounting more than anything else.

The pharmaceutical industry expects its tax rate to fall to 20% from 35%. When you heard a couple of the names, Pfizer, Merck, they have a lot of money overseas, and they sort of play games with patents and things like that. But, their tax rate will fall significantly.

I'll give you an interesting one. IBM's tax rate is going from 9% to 17%, and their stock went down two weeks ago because of that. And, so, it's going to affect different guys in different ways. It's not as clear cut. AbbVie from 19% to 9%. So, its lower tax levies on repatriating these overseas profits. Auto companies, banks, pharma, and tech, have greater incentive to bring it back to the U.S.

Telecom companies and industrials that stand to benefit by the increased deductions from capital investments. We talked about that earlier. They're going to expense 100% of a particular investment. That's a great thing. They have the money to invest, as well.

What I'm hearing, more than anything, as far as what's going to be impacted most directly from the tax code change, I'm hearing municipal bonds. But, I'm not telling you to run out and buy municipal bonds because, remember, they yield 2.5%. What I'm telling you is, is that there'll be more supply out there and there'll be more demand from them because, remember, in the beginning of this talk, we saw that our deductions got beat up. W ell, if your deductions get beat up, the only way to work on your reportable income is by having some tax-free income. So, municipal bonds would be a way of reducing the income on your tax return while, on the other side, you might be getting some lowering of your deductions.

Negatively impacted. Insurance companies. We have a problem in our health care system. The individual mandate will hurt, not only hospitals, not only insurance companies, but it's going to hurt individuals who are probably going to choose to go without insurance because without the Sword of Damocles hanging over their head, they will choose not to get an $18,000 policy, which is….

Audience:
0:26:41.8 ….$10,000 a year?

George Koeltl, CFP®:
The cost of insurance for a 60-year-old single person is like $12,000 now, which is an awful lot of price to pay – forget about a family of four.

Lowering your interest deductions. They are limiting the amount of interest that you can take on a corporate tax return. Again, that was going back to the concept companies leaving money overseas, borrowing money to pay dividends, because I'm paying so little. So, now they're limiting the interest expense that companies are allowed to take on.

Real estate. Not much has happened there.

The new tax code is going to increase the deficit by a trillion dollars. That's not going to happen tomorrow, but like anything else, when we kick the can down the road, there's a price to pay. We'll figure it out when we have to figure it out.

Debt holders could be paying larger interest payments. I don't think that… I'm not going to stand here and say I'm an economist or anything, but level of US debt to what interest rates are, are a function of economic activity and monetary policy and a whole lot of other things than we have a lot of debt. Because a lot of countries have a lot of debt.

Higher percentage of taxes would be paid simply to pay off the debt rather than funding benefits or investment. We don't want to look at that pie chart tonight. We're here to talk about all the great things the tax cuts were going to do for you. So, I'm not going to show you a pie chart that shows government debt and where the consumer spending is and how much we spend on interest, or any of that kind of stuff. We're going to talk about all the positive things.

So, if there's some other things that you might have on your mind that you'd like to put forward…

Audience:
The money that was overseas that's anticipated to come back in the United States and be taxed, how will that affect the Treasury? What do we expect the Treasury to…..?

George Koeltl, CFP®:
I forget what the numbers were. It was like $300 billion. It was a good amount of money. Remember, it's coming back in over an eight-year period. It's not coming back in at the same time the money's coming in. But they are going to get… The way I read it was, they're going to get 16% on cash and 12% on any intangible like real estate that they own and things like that. So, it's a lot of money. We've been talking about it, $2.5 to $3 trillion.

Audience:
The reason I asked that question was, you said that we think that the tax cuts will increase the national debt by a trillion dollars, but how much will that be offset by the….(???)

George Koeltl, CFP®:
That's all net. That's the net number. So, it could be worse, but I don't think so. There's going to be growth. We don't know how much. These things have to play themselves out. Just like, we have to see how all these great benefits are going to play themselves out. That's why we're starting to look at a stock market that's going waffle and going sideways. We got to see it. Show me. Show me what the impact is in real dollars, and you're going to hear it, you're going to see it come April, because people are going to have to come out and say, "What are we doing with this money we got?" They're going to tell you. Yeah, Joe.

Audience:
With higher wages, lower unemployment, and a tightening of the Fed, looks like inflation may be closer than we had anticipated.

George Koeltl, CFP®:
Not inflation.

Audience:
Yeah.

George Koeltl, CFP®:
Not inflation.

Audience:
Should we reduce our exposure to bonds?

George Koeltl, CFP®:
Inflation. We haven't seen inflation since 1982, so let's put it in context. The major source of inflation is always going to be human wages and, sometimes, commodities like what happened in the 70's. Anybody remember the 70's? Remember waiting in line for gasoline, odd and even license plates, limited to $5.00 a trip? You remember those things? Every other week. Gas prices would go up. The union would ask for a raise. Gas prices would go up, he unions would ask for a raise. By the time we got… We had wage and price controls. It was wild. And, then, Reagan came in with Voelker, and Voelker raised short term interest rates to 18% and choked the disease to death. And we haven't seen inflation since. Inflation's not bad. Inflation can be good. For an investor, it's awesome because…

Audience:
I'm talking about bonds.

George Koeltl, CFP®:
I'm talking about bonds, Joe. Inflation is awesome because 40% of our portfolios are getting a yield, and a yield of 5% is better than a yield of 3.5%. It takes a little time to get there, and there's going to be some price erosion to get there. But, you're going to be getting 5%. Remember 5%, Joe? It was great. So, you might have bonds that lose two or three percent in getting there. But, you're going to get there, and then you're going to be making five, and you're not going to work for it. It's going to be an easy five. It's not going to be reading the paper whether the market went up or down. It's going to be five. So, I say to everybody, inflation's going to happen, but inflation's good. You know what the best part of inflation is? If I borrow $300,000 and 20 years later and inflation was three percent, I'm really only paying them back $150,000. Because my dollar tomorrow is worth more because the debt became cheaper because of inflation. Inflation's not terrible. It's the other way that's terrible. When I borrow money from my

house, and five years later the house is only worth $200,000. My house is worth $600,000. That's deflation. That's the cancer. That's the cancer that kills, and inflation is something that can be… It's like, you can always cut off your leg. Am I getting a little bit out of control? You tell me.

Audience:
I've already taken my 0:33:36.6 (??) distribution for this year. Does that mean I have to wait till next year to do the…?

George Koeltl, CFP®:
To do that contribution? That's what the unfortunate thing is. And, you know, we realized that last year when we still had the deduction, because people were doing a QCD. Even last year was a good idea, because what a QCD does is, if I had a $50,000 required minimum distribution from my IRA, it went on the front page of my tax return, part of my adjusted gross income. If I give the $10,000 through my IRA, that number on the front page is only $40,000. Reduces my adjusted gross income by $10,000, and then my medical expenses get better, my miscellaneous expenses got better, my state taxes got better. In Connecticut, they just look at AGI. So, if your AGI is lower, you're basically getting a deduction in Connecticut for that QCD. But it has to come out. I think it's all weird the way they did that, but I don't know if they catch you, though. But, I believe, as a Boy Scout, you should follow the rules.

Audience:
0:34:49.1 (?????)

George Koeltl, CFP®:
Correct. Anybody else have anything? This tax code's not going to be the whole heckuva lot to us, but that doesn't mean it's not going to mean $1,000 to the plus side. Doing the QCD's. We have a client who, "What does he do, about $30,000, Roseanne?" And, he figured it out. I think it came out to be like $8,700 by doing the QCD because he doesn't pay $30,000… What's $30,000 times 6% almost for Connecticut? That's $1,800 right there. Plus, on the federal, he gets more deductions because of the reduction in the adjusted gross income. So, it's a great move. And, what do we do when we want to do a QCD? Call Roseanne. We look forward to each and everyone of us, all of the advisors, we all talk with the same talk at Reby. There's no, you know, Patrick doesn't… Different styles, of course, but everybody says the same thing. We want to guide you through this tax code change. We want to work with you to make you confident in your investments, and we're going to get there to the other side where everybody does tax efficient income streams. So, David, Patrick, Devone, we're all doing the same thing for our clients.

Thanks a lot.

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