

Tax Planning Strategies

New Tax Law Changes the Math for Roth Contributions

Who this applies to: Those making supplemental employee contributions to 403(b) and 457 retirement plans

Benefits to you: Designating contributions as Roth instead of pretax can potentially lower taxes in three ways

- Paying taxes now at a lower rate than might be imposed during retirement
- Roth assets can provide a tool for lowering marginal tax rates on pretax income sources during retirement
- Roth assets can mitigate the substantial risk of uncertain future tax structures

Summary: The tax bill passed in 2017 modifies individual income tax brackets for tax years 2018 through 2025. Marginal tax rates (the rate at which the next dollar of taxable income is taxed) are now reduced for many due to the broadening of the brackets and an overall reduction in tax rates. In light of these reductions, one might assume there is a reasonable probability that marginal rates will increase in the future. For these reasons, making supplemental retirement plan contributions as Roth instead of pretax could be a smart choice.

Annual contribution limits to 403(b) and 457 plans are significantly higher than for Roth IRAs. Maximum annual limits for Roth contributions to these plans are the same as for pretax - \$18,500 and \$24,500 (for those 50 or older), as opposed to \$5,500 and \$6,500 for Roth IRAs. Contributions to 403(b) and 457 plans are also not subject to income phase outs as Roth IRAs are.

Prior to the 2018 tax year, a married couple filing jointly with taxable income of \$165,000 would have had a federal marginal tax rate of 28%. Pretax contributions to a supplemental retirement plan would allow the couple to avoid the 28% in federal income taxes due at the time of contribution. Instead, taxes will be paid at prevailing tax rates when withdrawals are made.

For tax years 2018-2025 the marginal rate for this couple falls to 22%. If Roth contributions are made and taxes paid now at 22%, future withdrawals of both contributions and earnings will not be taxed if the first deposit to the account occurred at least five years prior to any withdrawal. Future retirement income needs can be met by judiciously drawing a combination of Roth and pretax assets to potentially reduce income taxes on withdrawals from pretax accounts, as well as taxable income sources such as pensions and social security benefits. Additionally, by having both Roth and pretax assets, the couple would now have a measure of flexibility to react to changes in future tax structures.

How the change to Roth contributions can be implemented: Either with a paper salary reduction agreement or through your employee portal, as your university instructs, select "Roth" as your contribution type along with the provider you have chosen and the contribution amount for each payroll period. The custodian of your account will maintain records of pretax and Roth assets in your account. Contact your advisor with questions or for assistance.

*Tax information provided by CCM should not be solely relied upon. Instead, one should conduct their own independent research or consult a tax professional.

Tax Efficient Methods of Making Charitable Gifts

Who This Applies To: Traditional IRA owners who are at least 70 1/2

Benefits to you: Making your charitable gifts directly from your IRA can result in three possible benefits

- Reduction in taxable income
- Decrease in the taxable portion of your social security benefit
- Reduction in Medicare premiums

Summary: If you are receiving required minimum distributions (RMDs) from an IRA, IRS Rules allow for qualified charitable distributions (QCDs) to be made directly from the account. Individuals may make QCDs during the year that do not exceed \$100,000 (per person if filing jointly). QCDs reduce the taxable portion of the withdrawal by the amount of the gift.

Because of recent changes in the tax code, the largest potential benefit derived from a QCD is a reduction in taxable income. The new tax law has doubled the standard deduction for both individuals (\$12,000) and spouses filing jointly (\$24,000). Those who are at least 65 years of age receive an additional standard deduction of \$1,300. To offset those increases, some itemized deductions were taken away or limited. This presents an opportunity for those who make charitable gifts by cash or check and have little or no mortgage interest or medical deductions. Those individuals should consider making their charitable contributions as QCDs.

The abbreviated example below shows how taxable income could be reduced for a married couple, both at least 65 years of age, with a \$50,000 RMD. For simplicity, other income sources are ignored.

	Gift as Deduction		Gift as QCD	
Income				
Taxable IRA Distributions	\$	50,000	\$	40,000
Adjusted Gross Income	\$	50,000	\$	40,000
Deductions				
Taxes (State and Local Taxes)	\$	10,000	\$	10,000
Interest	\$	5,000	\$	5,000
Gifts to Charity by Cash or Check	\$	10,000	\$	-
Total Itemized Deductions	\$	25,000	\$	15,000
Standard Deductions	\$	26,600	\$	26,600
Deduction Taken	\$	26,600	\$	26,600
Taxable Income	\$	23,400	\$	13,400

This simple example does not reflect any secondary benefits that may result in a reduction of taxes on social security benefits or a reduction in Medicare premiums.

How a QCD can be implemented: The custodian of your retirement account will forward the charity a check or facilitate an electronic transfer based upon your signed instructions. Just as you maintain records of charitable gifts when taken as an itemized deduction, you should also maintain those records when QCDs are made. Your tax preparer should be made aware that a QCD was made so that the gift can be properly accounted for at tax filing. Contact your advisor with questions or for assistance.

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2018 CCM Tax Guide

We have updated our [Tax Reference Guide for 2018](#)

Cyber Security and Compliance

Human Vulnerabilities Can Impact Email Security

An increasing number of cyber attacks are being designed to take advantage of human behavior rather than flaws in hardware or software. Email remains the primary weak link for most individuals as attackers target our natural curiosity, our desire to be helpful, love of a bargain, or even time constraints. It is important to remain vigilant when checking email, especially those that contain attachments, links, or messages that suggest dire actions if you don't act. Messages with content related to suspending your account(s), notifying you that your inbox is full, or an alert about a package delivery are all examples of emails in which you may want to apply further scrutiny.

Suspicious emails such as these may prompt users to enter login credentials which can be used by a hacker to gain unauthorized access to your email. To mitigate your risk:

- Evaluate your email privacy settings and if possible, enable multi-factor authentication;
- Avoid using public Wi-Fi when accessing your sensitive information; and
- Always check the email address of the sender. Many fraudulent emails use brand names like

Dropbox and DocuSign to get users to click on malicious links or attachments.

For a more detailed cyber security checklist, refer to the [guide](#) on our website.

Asset Movement Authorizations

Some clients with Charles Schwab & Co, Inc. (Schwab) accounts have previously given CCM written authorization to establish a link between Schwab accounts or from a Schwab account to another third-party, such as a bank account or charity. This Standing Letter of Authorization (SLOA), allows CCM to transfer assets on your behalf in a timely manner to the account(s) you have specified and to provide instruction as to the timing, amount, and/or tax withholding election for the transaction without account holder signatures each time. In June, those with SLOAs on file will receive an annual reminder reconfirming these instructions from Schwab.

No response is necessary if the SLOA is to continue.

[Sample](#)

Trending Topics

American Higher Education Hits a Dangerous Milestone

“For the first time, public colleges and universities in most states received most of their revenue from tuition rather than government appropriations.”

[Full article](#)



Investment and Market News

Upcoming Fidelity Mutual Fund Share Splits

Several Fidelity funds have recently conducted 10-for-1 share splits. The number of shares you owned were multiplied by a factor of 10, with a corresponding reduction in share price.

[Fidelity FAQ sheet](#)

Year-to-date Market Summary

Index/Market	YTD
S&P 500 Index	2.02%
DJ Industrial Average	-0.24%
Russell 3000	2.55%
Russell 2000	6.90%
Nasdaq	8.31%
MSCI EAFE Index	-1.55%
Barclays US Agg Bond	-2.70%
10-Year U.S. Treasuries (Yield)	2.94%
WTI Crude Oil	10.49%
LBMA Gold Price	1.11%

Index/Market	YTD
Consumer Disc	7.63%
Consumer Staples	-12.49%
Energy	6.50%
Financials	-2.21%
Health Care	0.20%
Industrials	-1.43%
Information Technology	11.26%
Materials	-3.42%
Real Estate	-3.47%
Telecom Services	-10.48%
Utilities	-2.38%

Source: [Morningstar.com](#) as of 5.31.2018

First-quarter earnings growth helped fuel stocks higher in early May, only to have gains pull back by month's end due to trade fears and potential political instability in Europe. Despite the volatility, the S&P 500 finished up for the month of May, recording its best month since January due in large part to tech's continued growth. The dollar also continued its rally which began in mid-April with the continued rise in Treasury Yields.

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