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The Right Direction For All Your Financial Decisions

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2017 Year-End Planning News for Investors and Business Owners

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Year End Financial Housekeeping...



While participating in the AICPA's "2017 Sophisticated Tax Planning for Your Wealthy Clients" conference in Boston, the week began with the 2 houses of Congress debating separate versions of income tax bills that have been variously touted as "major tax cuts" and "once-in-a-generation" tax reform. During the week there has been an enormous amount of "horse trading" between both parties, both houses, and the administration. By week's end, the House managed to pass its tax bill, mostly along party lines. The Senate Finance Committee has favorably reported out its version of a tax bill that will now be considered by the entire Senate (important note, the Senate bill includes the elimination of the mandated health insurance coverage of the Affordable Care Act – a particularly hot potato). Because the party split is much tighter in the Senate than in the House, the Senate bill is expected to be closely debated. Presuming the Senate is able to pass its own version of tax legislation, the next step is for a joint committee of both houses to negotiate away the differences and achieve a single bill that must pass both houses yet again (are you exhausted yet? Congress will be before it's all over!). There is a long way to go before we have legislative certainty sufficient to implement effective tax plans.

Nevertheless, the end of the calendar year presents a unique opportunity to look at your overall personal financial situation. **Before we enter 2018, it is important to explore what aspects of your financial plan may need to be revisited in the near-term and what proactive planning opportunities exist.** Weaving together all areas of your personal

finances, like income and estate tax, retirement, risk management, investments and cash flow is one of the key ways we provide value to you as your trusted adviser. To help get the conversation started, below are some items we can help you think through.

Income Tax Planning – Congress is currently working on a massive tax reform proposal that could change many aspects of income tax law. The House and Senate are separately debating bills that may reduce corporate and personal tax rates, eliminate the personal exemption and many itemized deductions. While we don't know who the winners and the losers will be until we see a final version of the bill (or if anything will get passed at all), we do know there are income tax planning opportunities under the current law.

Given the possibility of reduced income tax rates next year, deferring taxes by accelerating expenses and delaying income will be effective once again this year.

Strategies like maximizing your retirement plan contributions, tax loss harvesting in portfolios and making charitable contributions (which may be worth A LOT more this year than next) can all help reduce current and future tax bills. It is also a good decision to review your current year tax projection based on your income and deductions year to date. This exercise could provide even more value should we learn more concrete details about changes to the income tax law and when they would take effect. Give me a call to review *your* income tax projection.



Estate Planning – Another aspect of the tax reform proposals is significant changes to federal estate tax law. Presently, there are no proposed changes to Massachusetts estate tax rules that tax estates in excess of \$1 million. Regardless of potential changes, it is always important to think through both the tax and non-tax considerations of what will happen to your assets after you are gone (what if your end of life is closer than you think? What have you left undone?). Examining a flowchart of your current estate plan can help you visualize what would happen to each of your assets and how the current estate tax law will impact you.

Given the substantial changes to trust and estate law over the last decade, it's also important that your estate planning documents are up to date – not just your will, but also your power of attorney (potentially your most important planning document), health care documents, and any trust agreements. You should also check the beneficiary designations on each of your retirement accounts to be sure they are in line with your desires. If you have recently been through a significant life event such as

marriage, divorce or the death of a spouse, this is especially important right now. Call the office to reserve a time to do this important work.



Investment Strategy– Virtually all areas of the stock market have seen impressive performance this year, continuing a trend of positive returns that has persisted since the market bottom in March of 2009. The markets have also been remarkably calm this year as volatility has reached some of the lowest levels seen in years. This has led many to fear we might be in the calm before the storm, but nobody knows exactly how long that calm will last. Since we know it can't last forever, it is important to be prepared for a drop. Market declines are a natural part of investing, and understanding the importance of maintaining discipline during these times could make it easier to live through the next one.

Strong stock market returns also might have driven your asset allocation out of alignment with what is appropriate given your risk tolerance, return requirements and time horizon. **In order to assist you in maintaining an asset allocation appropriate for you I have made an analytical tool called *Riskalyze* available to you on our website (giannoandfreda.com).** If you are like most people you may be surprised by its results. Regular portfolio rebalancing will allow you to maintain the appropriate amount of risk in your portfolio. If you are retired and living off your portfolio, this rebalancing could include maintaining an appropriate cash reserve to cover living expenses for a certain period of time.



We have seen the Federal Reserve increasing interest rates lately with plans to continue doing so. As interest rates rise, the value of bonds will decrease, but the higher yields in the long run will be good for investors. For borrowers, rising interest rates will ultimately mean the end of inexpensive borrowing. Given this change, it is prudent to review all your debt and consider refinancing to lock in low rates now. While we are on the issue of credit, with the magnitude of the Equifax credit breach, have you taken steps to protect your credit? It is also a good idea to check your credit history periodically. **Give me a call to set up as time to review your current allocation and, if necessary, explore steps that you can take to help bring it back into alignment.**



Charitable Giving – We see an uptick in client interest in charitable giving at the end of the year, but for many of our clients, charitable giving plays a key role in their lives year-round. There are many ways to be tax efficient when making charitable gifts. For example, donating appreciated stock could make sense in order to avoid paying capital gains taxes. Further, if you are in a higher tax bracket this year than you might be next year, it could be beneficial to accelerate next year's gifts to this year. If the numbers are large enough, you might even consider a private foundation or donor advised fund for your charitable giving (a relatively simple yet powerful tax savings tool). Estate planning should be carefully interwoven with your charitable giving plans.

Retirement Planning – The concept of retirement is changing, and different people define it in different ways. The first step in planning for retirement is to think through what you envision for your own future. Whether you expect a typical full retirement or a career change into a more fulfilling field, determining an appropriate balance between spending and saving, both now and in the future is important. There are many options available for saving for retirement, but we can help you understand which option is best for you.

Cash Flow Planning – Whether you are retired or not, it is important to closely monitor your spending habits. The end of the year presents a fantastic opportunity to review the current year's spending and plan for next year. If you are retired, it is particularly important to maintain a tax efficient withdrawal strategy to cover your spending needs. If you have not yet reached age 70.5, it is prudent to ensure you are making tax-efficient withdrawal decisions. If you are over age 70.5 make sure you are taking your required minimum distributions because the penalties can be significant if you don't. Also, there are many Social Security claiming strategies available, so we can help you take a look at which strategy is best for you. **Many retirement experts note that it's important to know your guaranteed source of future income streams for years to come. Give me a call to review the sources of your future cash flows.**

Risk Management – The recent hurricanes in Texas, Florida, and



Puerto Rico, along with the wildfires in California provide a powerful reminder to make sure property insurance coverage is appropriate and up to date and covers the risks you face. If you are in one of these disaster areas, there are additional steps necessary to recover what you can and explore the tax treatment of casualty losses. Other areas of risk management that may need to be revisited include life and disability insurance. We often find clients are not appropriately covered as a policy review has not been done in some time.

Education Funding – Funding education costs for children or grandchildren is important to many of you. While the increase in college costs have slowed some lately, this is still a major expense for most families. It is important to know the many different ways you can save for education to determine the optimal strategy. Often, funding a 529 plan comes with tax benefits, so making contributions before the end of the year is key.

Elder Planning – There are many financial planning elements to consider as you age, and it is important to consider these things before it's too late. **Having a plan in place for who will handle your financial affairs should you suffer cognitive decline is critical.** The costs of long-term care, either in a nursing home or at-home, continue to rise (often in excess of \$10,000 per month). States are becoming more aggressive in their efforts to avoid Medicaid claims for assistance, and to recover assets from the estates of those who received Medicaid benefits. The Massachusetts Supreme Judicial Court recently ruled in favor of Mass Health's efforts to attach a personal residence owned by an irrevocable trust with a life estate held by a long term care patient that received Medicaid funding. The attack on this often-used plan has elder law attorneys scrambling for a solution.

Making sure your spouse and/or family understands your plans will help reduce future family conflicts and ensure your wishes are considered. In addition to the financial aspects, now is the time to address plans for your care. **It is important that your family be supported by an able team of professionals including your CPA, financial adviser, lawyer, and, perhaps most importantly, your care manager.** Now is the best time to provide for yourself and your family with proper planning. Give me a call.



The decisions you make each year with your personal finances will have a lasting impact. I hope this letter has begun to generate some insight to areas of your personal finance that need attention. If you are interested, I can provide a more detailed list of specific financial considerations I can help you look at before the end of the year. **I am honored to be your trusted advisor and partner. Please contact me when you are ready to talk through year-end planning.**

I am also honored to be supported by an all-star lineup of professionals including my 30+ year business partner Tom Freda, Tax and Accounting Manager Chloe Pelissier, ever-helpful Staff Accountant Katie Flynn, keeper of the keys and everyone's favorite Donna Gradie, my 30+ year spending controller Kathleen Kenneally, and the newest addition to the family Amy Snow (who actually did give up a promising career as a scientist to help us help you). **Feel free to let us know how we're doing by giving us a review on Yelp or Google!**

"It's not what you earn, it's what you keep"



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