



CAPITAL  
ADVANTAGE

Capital Advantage Market Outlook for 2018



# Introduction

John Hayman, CFP®



# Market Outlook & Tax Update: 2018

## Agenda

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### John Hayman, CFP® – Founder and Chief Investment Officer

- Introduction

### Ian Castille, CFP® – Senior Financial Advisor

- 2017: Year in Review
- Opportunities for 2018

### Donna Zinman, MBA, CRPC® – Executive Vice President

- Risks for 2018
- Capital Advantage Investment Strategy for 2018

### Nicole Bennett, CPA – Founder and Co-Owner Bennett & Rhodes

- Tax Code Update for 2018
- Q & A



Capital Advantage Market Outlook for 2018



# 2017: Year in Review

Ian Castille, CFP®



You can only know where you're going if you know where you've been.

So where have we been?

The U.S. stock market experienced record highs every single month of 2017.

S&P 500 Monthly Total Returns												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	1.9%	4.0%	0.1%	1.0%	1.4%	0.6%	2.1%	0.3%	2.1%	2.3%	3.1%	1.4%*
2016	-5.0%	-0.1%	6.8%	0.4%	1.8%	0.3%	3.7%	0.1%	0.0%	-1.8%	3.7%	2.0%
2015	-3.0%	5.7%	-1.6%	1.0%	1.3%	-1.9%	2.1%	-6.0%	-2.5%	8.4%	0.3%	-1.6%
2014	-3.5%	4.6%	0.8%	0.7%	2.3%	2.1%	-1.4%	4.0%	-1.4%	2.4%	2.7%	-0.3%
2013	5.2%	1.4%	3.8%	1.9%	2.3%	-1.3%	5.1%	-2.9%	3.1%	4.6%	3.0%	2.5%
2012	4.5%	4.3%	3.3%	-0.6%	-6.0%	4.1%	1.4%	2.3%	2.6%	-1.8%	0.6%	0.9%
2011	2.4%	3.4%	0.0%	3.0%	-1.1%	-1.7%	-2.0%	-5.4%	-7.0%	10.9%	-0.2%	1.0%
2010	-3.6%	3.1%	6.0%	1.6%	-8.0%	-5.2%	7.0%	-4.5%	8.9%	3.8%	0.0%	6.7%
2009	-8.4%	-10.6%	8.8%	9.6%	5.6%	0.2%	7.6%	3.6%	3.7%	-1.9%	6.0%	1.9%
2008	-6.0%	-3.2%	-0.4%	4.9%	1.3%	-8.4%	-0.8%	1.4%	-8.9%	-16.8%	-7.2%	1.1%
2007	1.5%	-2.0%	1.1%	4.4%	3.5%	-1.7%	-3.1%	1.5%	3.7%	1.6%	-4.2%	-0.7%
2006	2.6%	0.3%	1.2%	1.3%	-2.9%	0.1%	0.6%	2.4%	2.6%	3.3%	1.9%	1.4%
2005	-2.4%	2.1%	-1.8%	-1.9%	3.2%	0.1%	3.7%	-0.9%	0.8%	-1.7%	3.8%	0.0%
2004	1.8%	1.4%	-1.5%	-1.6%	1.4%	1.9%	-3.3%	0.4%	1.1%	1.5%	4.0%	3.4%
2003	-2.6%	-1.5%	1.0%	8.2%	5.3%	1.3%	1.8%	2.0%	-1.1%	5.7%	0.9%	5.2%
2002	-1.5%	-1.9%	3.8%	-6.1%	-0.7%	-7.1%	-7.8%	0.7%	-10.9%	8.8%	5.9%	-5.9%
2001	3.5%	-9.1%	-6.3%	7.8%	0.7%	-2.4%	-1.0%	-6.3%	-8.1%	1.9%	7.7%	0.9%
2000	-5.0%	-1.9%	9.8%	-3.0%	-2.1%	2.5%	-1.6%	6.2%	-5.3%	-0.4%	-7.9%	0.5%
1999	4.2%	-3.1%	4.0%	3.9%	-2.4%	5.5%	-3.1%	-0.5%	-2.7%	6.3%	2.0%	5.9%
1998	1.1%	7.2%	5.1%	1.0%	-1.7%	4.1%	-1.1%	-14.5%	6.4%	8.1%	6.1%	5.8%
1997	6.2%	0.8%	-4.1%	6.0%	6.1%	4.5%	8.0%	-5.6%	5.5%	-3.3%	4.6%	1.7%
1996	3.4%	0.9%	1.0%	1.5%	2.6%	0.4%	-4.4%	2.1%	5.6%	2.8%	7.6%	-2.0%
1995	2.6%	3.9%	3.0%	2.9%	4.0%	2.3%	3.3%	0.3%	4.2%	-0.4%	4.4%	1.9%
1994	3.4%	-2.7%	-4.4%	1.3%	1.6%	-2.5%	3.3%	4.1%	-2.4%	2.2%	-3.6%	1.5%
1993	0.8%	1.4%	2.1%	-2.4%	2.7%	0.3%	-0.4%	3.8%	-0.8%	2.1%	-1.0%	1.2%
1992	-1.9%	1.3%	-1.9%	2.9%	0.5%	-1.5%	4.1%	-2.0%	1.2%	0.3%	3.4%	1.2%
1991	4.4%	7.2%	2.4%	0.2%	4.3%	-4.6%	4.7%	2.4%	-1.7%	1.3%	-4.0%	11.4%
1990	-6.7%	1.3%	2.6%	-2.5%	9.7%	-0.7%	-0.3%	-9.0%	-4.9%	-0.4%	6.5%	2.8%

# 2017: Year in Review

## Lowest Volatility Stretch Ever

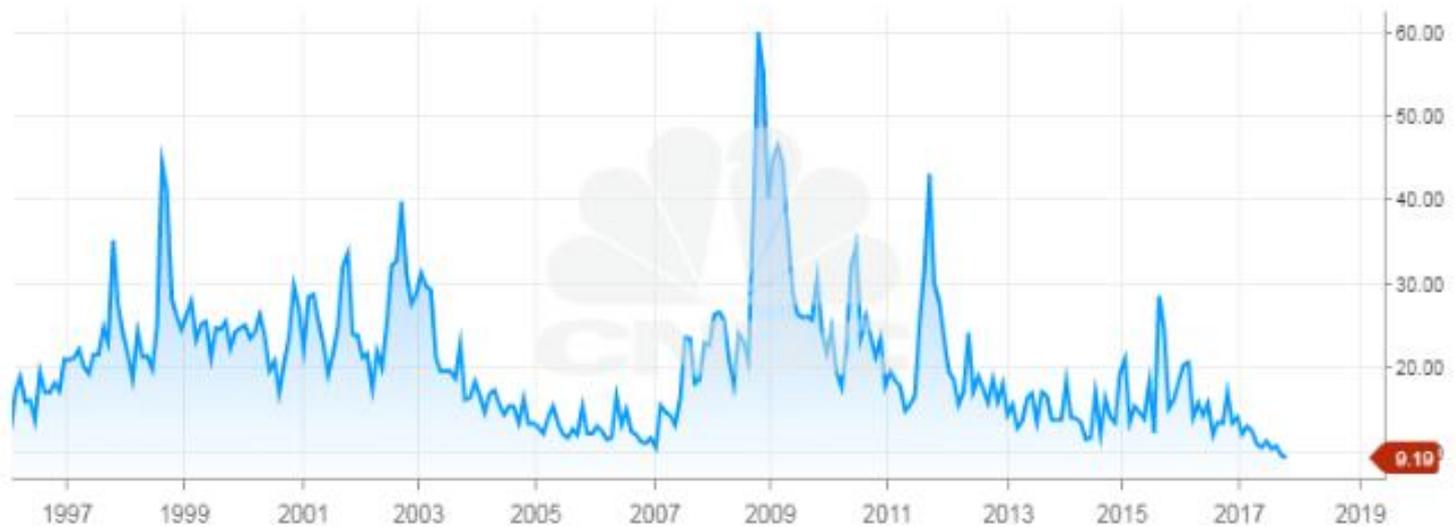
### CBOE Volatility Index (.VIX:STOXX)

USD

Last | 4:14:46 PM GMT

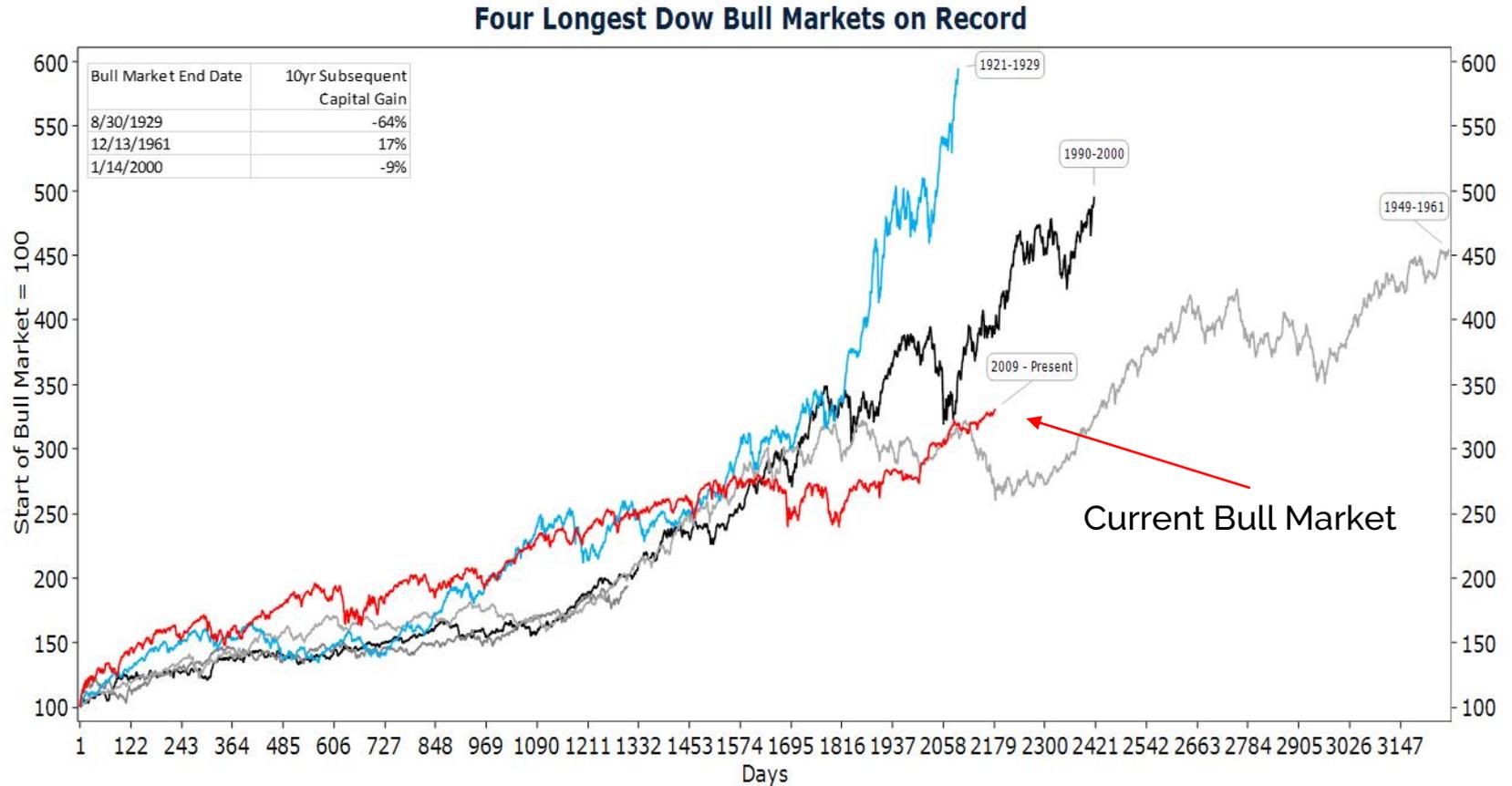
**9.19** -0.44 (-4.57%)

ALL



# 2017: Year in Review

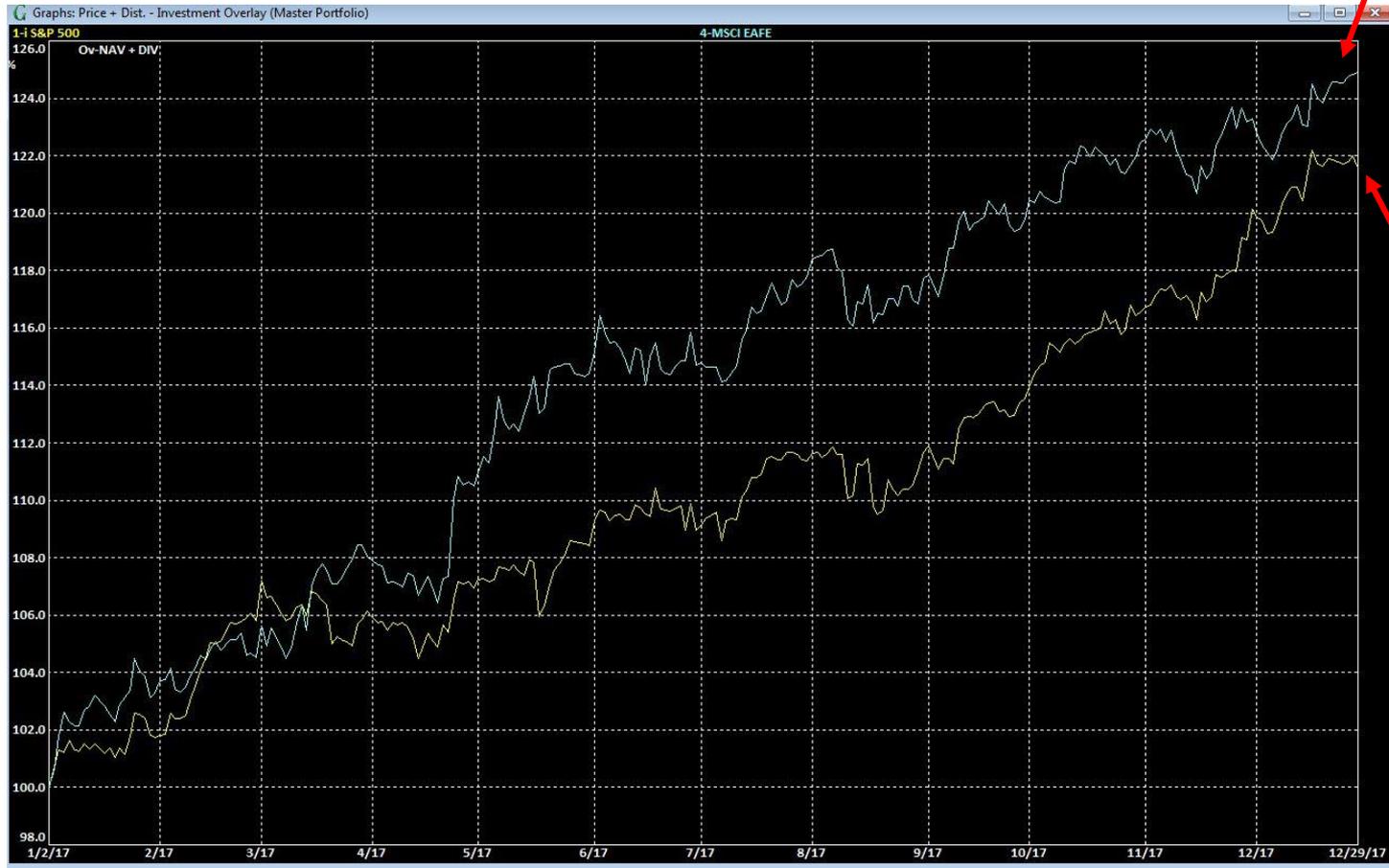
## 3<sup>rd</sup> Longest Bull Market on Record...So Far!



# 2017: Year in Review

## International versus Domestic Equities

International Equities (EAFE)

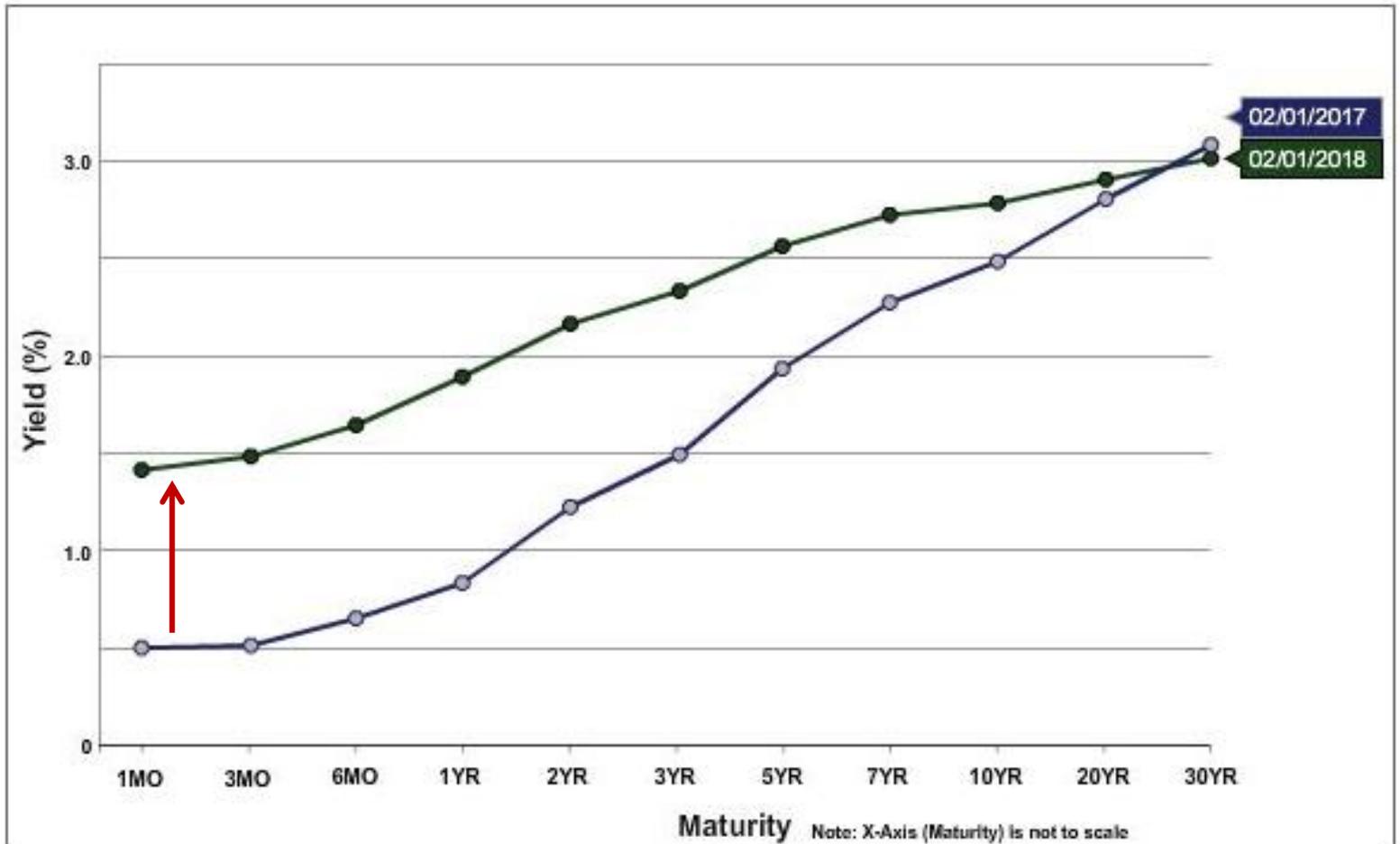


S&P 500

# 2017: Year in Review

## Yield Curve Flattened

### U.S. Treasury Yield



# 2017: Year in Review

## Additional Economic Data



**Unemployment:** 4.1% (lowest in 17 years)

**Earnings:** S&P 500 produced earnings growth of 9.6% in 2017

**LEI (Leading Economic Indicators):** Improving and remain positive for 8<sup>th</sup> straight year.

# 2017: Year in Review

## Dollar Weakened

**PowerShares DB US Dollar Bullish ETF (UUP)** ☆ Add to watchlist

NYSEArca - NYSEArca Delayed Price. Currency in USD

**23.13** -0.12 (-0.52%)    **23.13** +0.01 (0.04%)

At close: 4:00PM EST

After hours: 4:00PM EST

Open an account.  
**E\*TRADE**



Indicators Comparison | Dec 31, 2016 - Dec 31, 2017 1D 5D 1M 3M 6M YTD 1Y 2Y 5Y Max | Interval 1D Line Draw Settings



Source: NYSEArca, Jan 2018

2017: Year in Review  
Tax Cuts and Jobs Act of 2017



**“Today we are introducing a new simplified tax code:  
Send us all of your money and we’ll send back  
whatever we don’t use.”**

Capital Advantage Market Outlook for 2018



# Opportunities

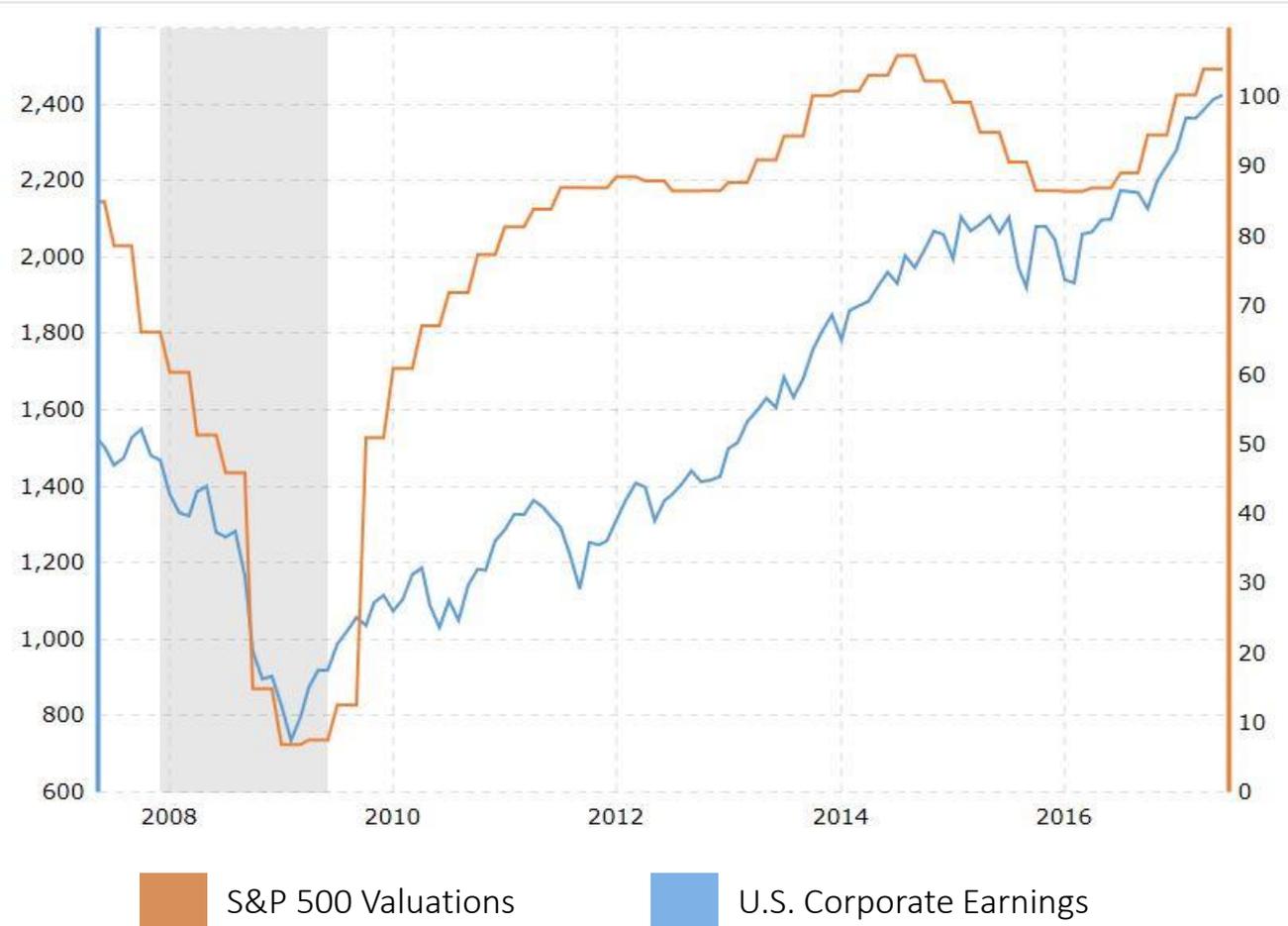
Ian Castille, CFP®





# Economic Opportunities

## Corporate Earnings (Profits) Growth

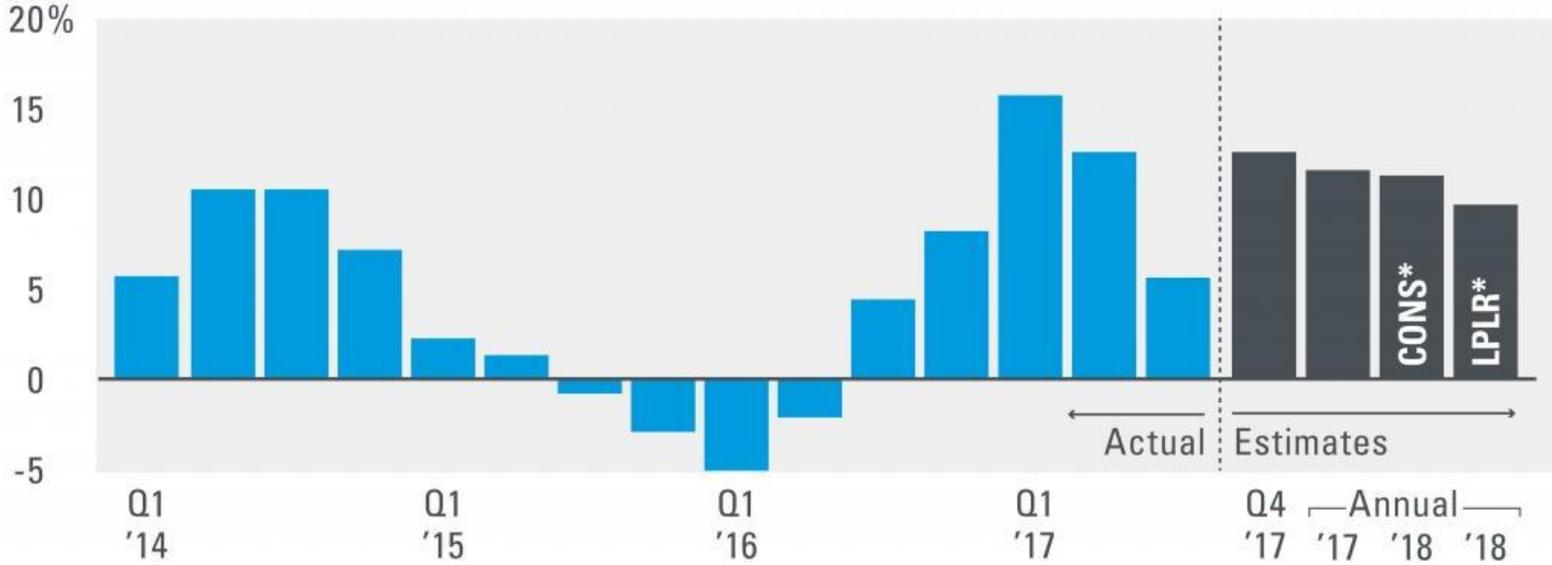


Source: <http://www.macrotrends.net/1324/s-p-500-earnings-history> thru 6/17

# Economic Opportunities

## Earnings Outlook Continues To Be Positive

### S&P 500 Year-Over-Year EPS Growth



Source: LPL Research, Thomson Reuters 10/21/17

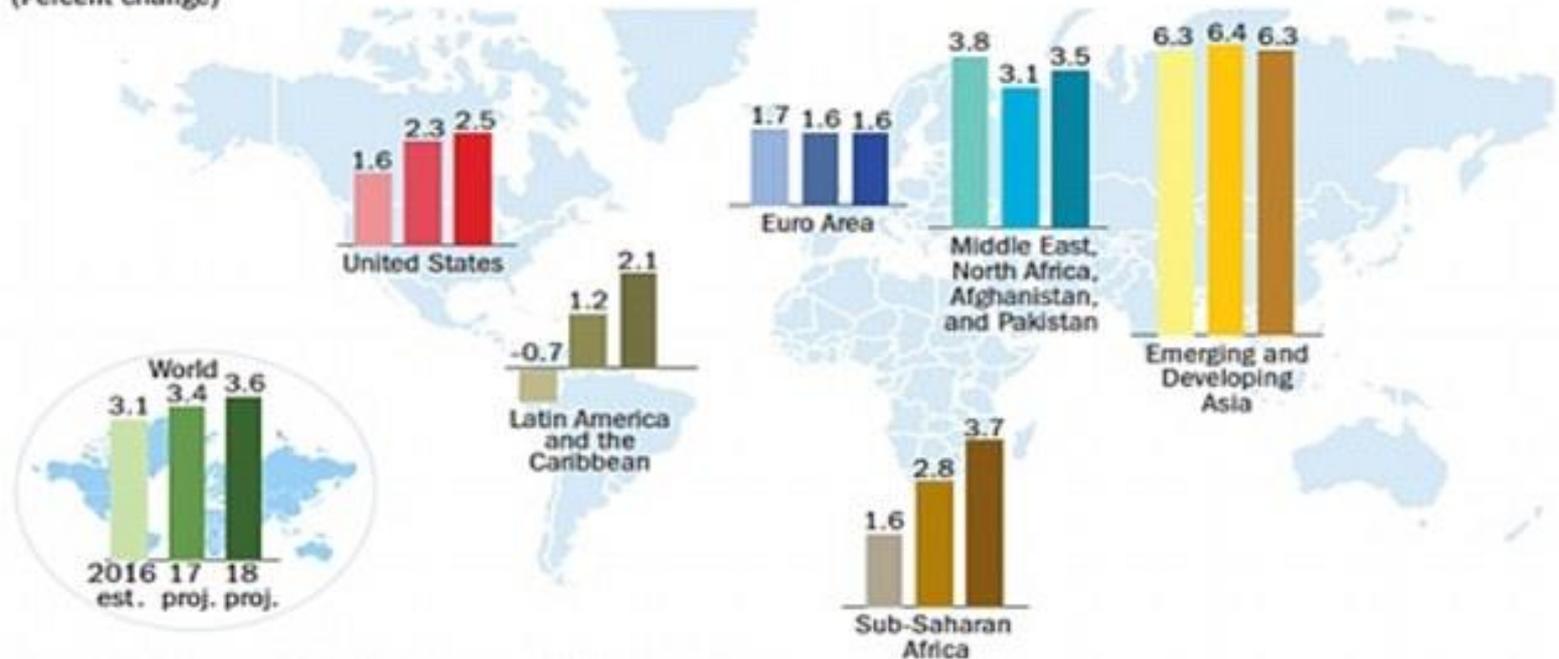
# Economic Opportunities

## Global GDP Forecast

### Latest growth projections

Global economic activity is set to pick up in 2017-18

(Percent change)



# Economic Opportunities

## International Valuations

	S&P 500 (U.S.)	MSCI EAFE (Developed International)	MSCI Emerging Markets
P/E Ratio	21.71	18.46	16.03

↓  
**15% less expensive  
than U.S. equities**

↓  
**26% less expensive  
than U.S. equities**

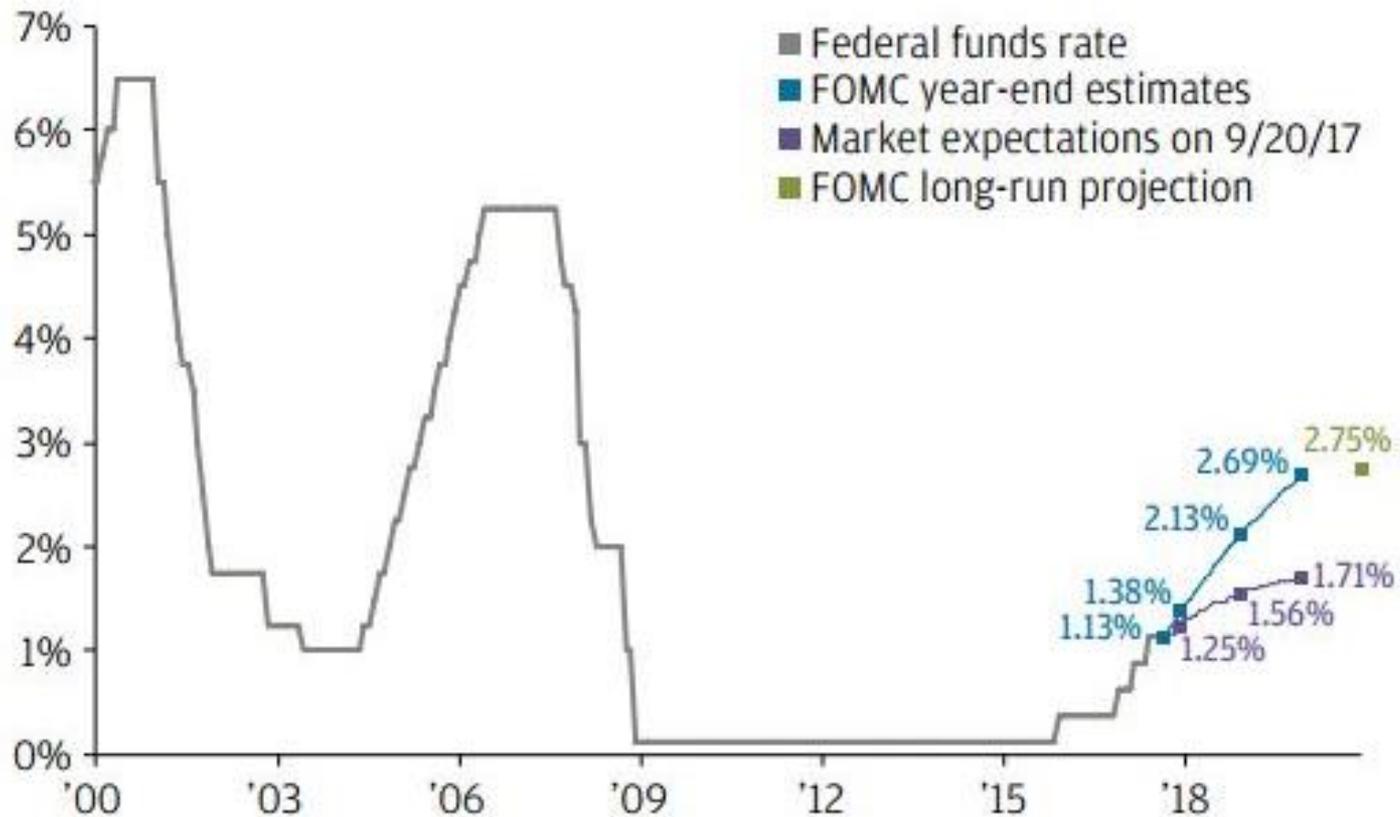
Average price-to-earnings ratio is historically closer to 14.

What does this mean?  
**ALL equities are still considered “expensive.”**

# Economic Opportunities

## Short-Term Interest Rates Rising

### FOMC and Market Expectations for the Fed Funds



## Capital Advantage Market Outlook for 2018

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### Summary of Opportunities:

- Strong economic data
- Corporate earnings growth
- International vs domestic stock valuations
- Short-term interest rates

**Economic data points to low probability of U.S. recession in first half of 2018.**

## Capital Advantage Market Outlook 2018



# Risks

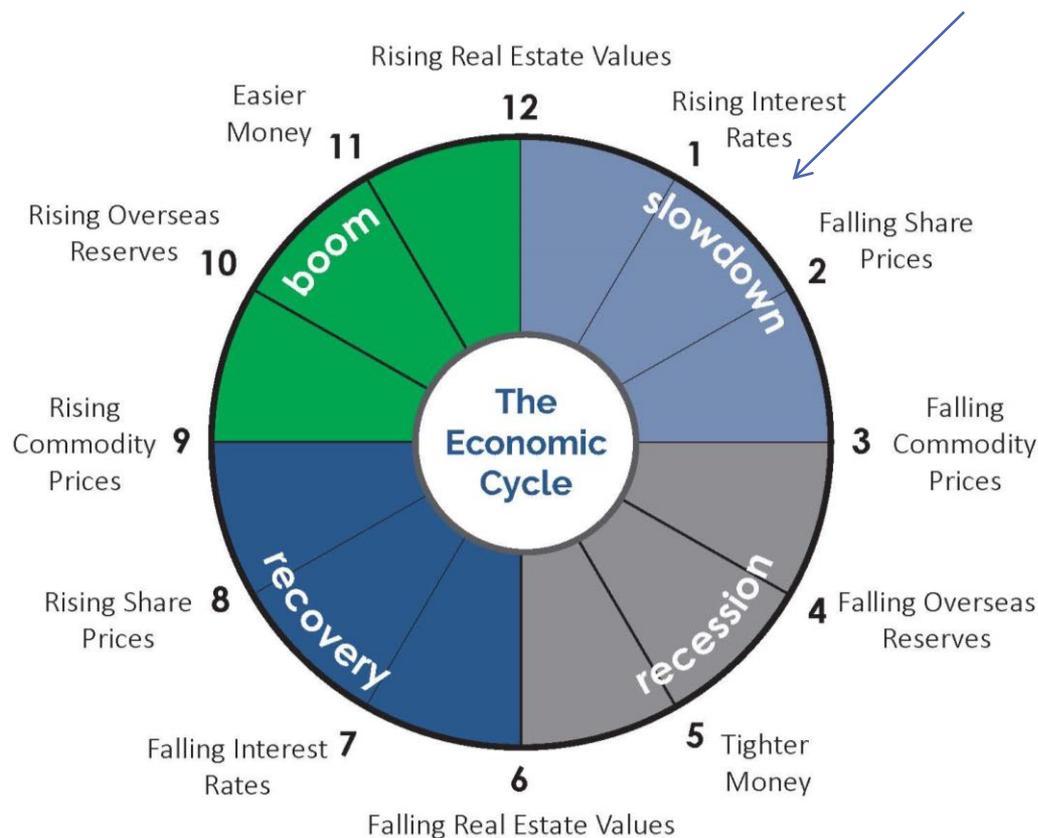
Donna Zinman, MBA, CRPC®



# Economic Risk Factors

## Market Cycle Long in the Tooth

Market Volatility:  
What Investors Should Know



## Market Volatility Statistics

- The S&P 500 has been down 34% of the time and up 66% of the time. <sup>1</sup>
- On average every two years, the stock market has corrected or had a recessionary downturn. <sup>2</sup>
- The average correction is 13.7%. In the last 36 years, there have been 12 corrections. <sup>2</sup>
- The average market downturn in a recession is 33.4%. In the last 36 years, there have been 7 of these downturns. <sup>2</sup>
- The average recovery time from a correction is 4 months. The average recovery time from a recessionary downturn is 2.11 years. <sup>2</sup>

1. LizAnn Sonders, Chief Investment Strategist of Charles Schwab & Co., Inc. "2016 Outlook Webcast", 2/2/2016  
 2. Vanguard Article 1/28/2016 "Corrections and Bear Markets: What does Vanguard Think?"

# Economic Risk Factors

## Current Recovery is One of the Longest Ever

1947	5.20%
1948	5.70%
1949	18.30%
1950	30.81%
1951	23.68%
1952	18.15%
1953	-1.21%
1954	52.56%
1955	32.60%
1956	7.44%
1957	-10.46%
1958	43.72%
1959	12.06%
1960	0.34%
1961	26.64%
1962	-8.81%
1963	22.61%
1964	
1965	12.40%
1966	-9.97%
1967	23.80%
1968	10.81%

1969	-8.24%
1970	3.56%
1971	14.22%
1972	18.76%
1973	-14.31%
1974	-25.90%
1975	37.00%
1976	28.83%
1977	-6.98%
1978	6.51%
1979	18.52%
1980	31.74%
1981	-4.70%
1982	20.42%
1983	22.34%
1984	6.15%
1985	31.24%
1986	18.49%
1987	5.81%
1988	16.54%
1989	31.48%
1990	-3.05%

1991	30.23%
1992	7.49%
1993	9.97%
1994	1.33%
1995	37.20%
1996	22.68%
1997	33.10%
1998	28.34%
1999	20.89%

2000	-9.03%
2001	-11.85%
2002	-21.97%
2003	28.36%
2004	10.74%
2005	4.83%
2006	15.61%
2007	5.48%
2008	-36.55%

2009	25.94%
2010	14.82%
2011	2.10%
2012	15.89%
2013	32.15%
2014	13.52%
2015	1.38%
2016	11.77%
2017	21.64%

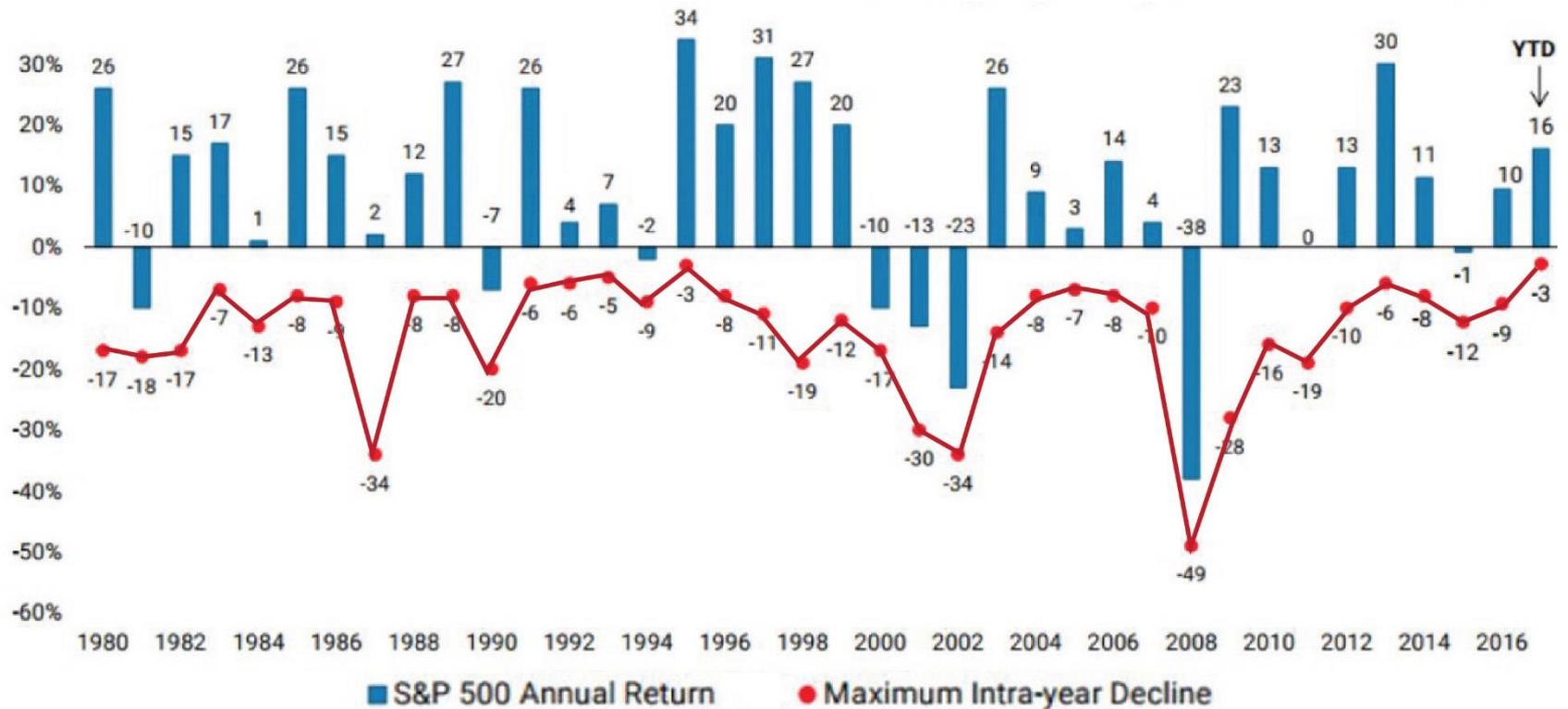
QQQ

Source: S&P 500 with dividends, Dec 2017

# Economic Risk Factors

## Low Volatility Suggests a Correction is Overdue

Equity Markets Typically Exhibit Much Greater Drawdowns than What We Had in 2017



# Economic Risk Factors

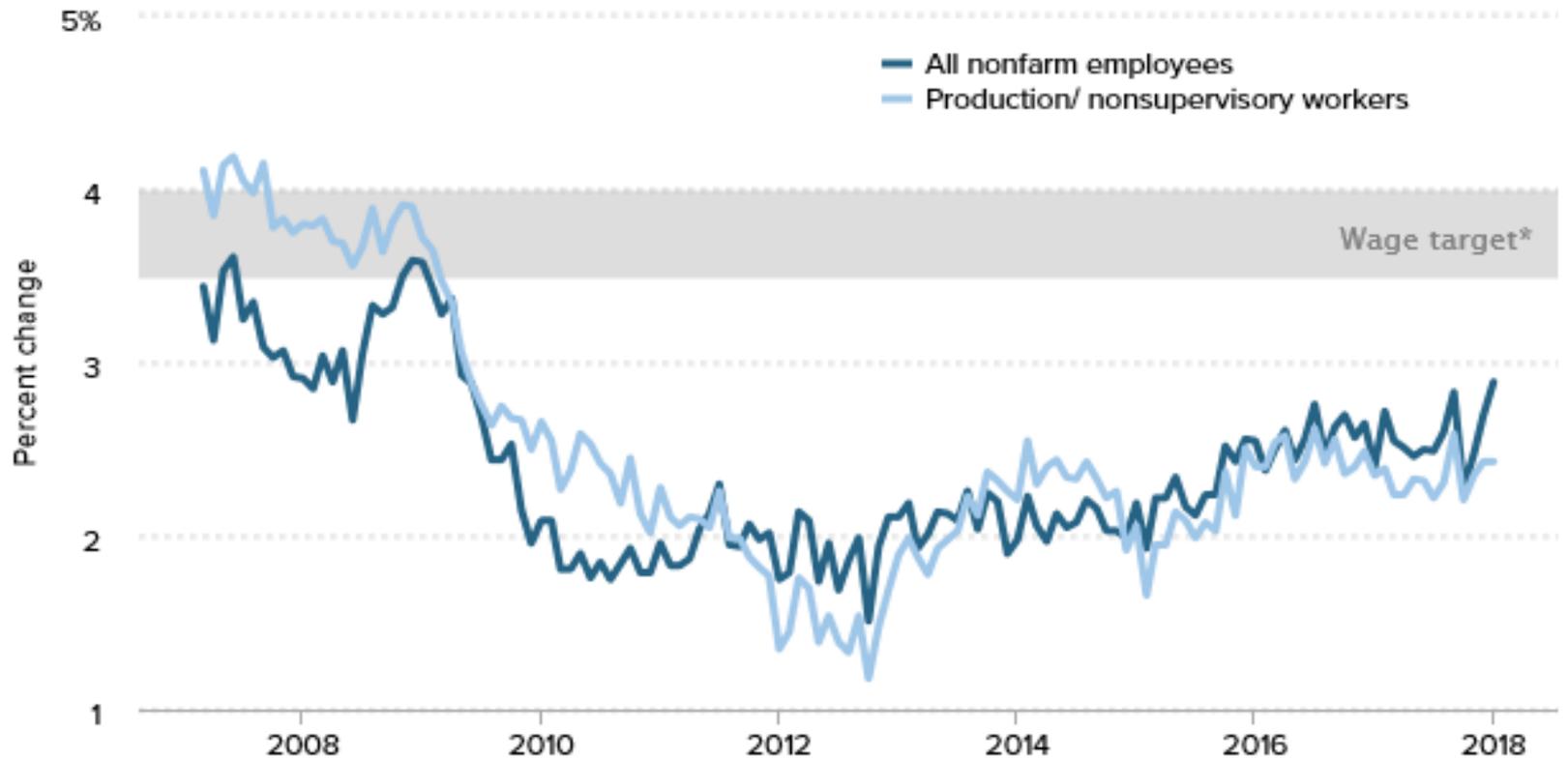
## Elevated U.S. Equity Valuations

Valuation metric	Current reading	Analysis
Fed Model	-56.1%	Inexpensive
Equity risk premium (10-year Treasury yield)	2.5%	Inexpensive
Equity risk premium (Baa corporate bond yield)	0.5%	Inexpensive
Rule of 20	20.6	Mildly expensive
S&P 500 price/book value ratio	3.21	Mildly expensive
Tobin's Q	1.09	Expensive
S&P 500 forward P/E	18.4	Expensive
S&P 500 trailing P/E	21.4	Expensive
S&P 500 5-year normalized P/E	25.2	Expensive
S&P 500 dividend yield	1.8%	Expensive
S&P 500 price/cash flow	14.0	Very expensive
Shiller's CAPE (cyclically-adjusted P/E)	32.6	Very expensive
Market cap/GNP	130.7%	Very expensive

# Economic Risk Factors

## Rising Wages

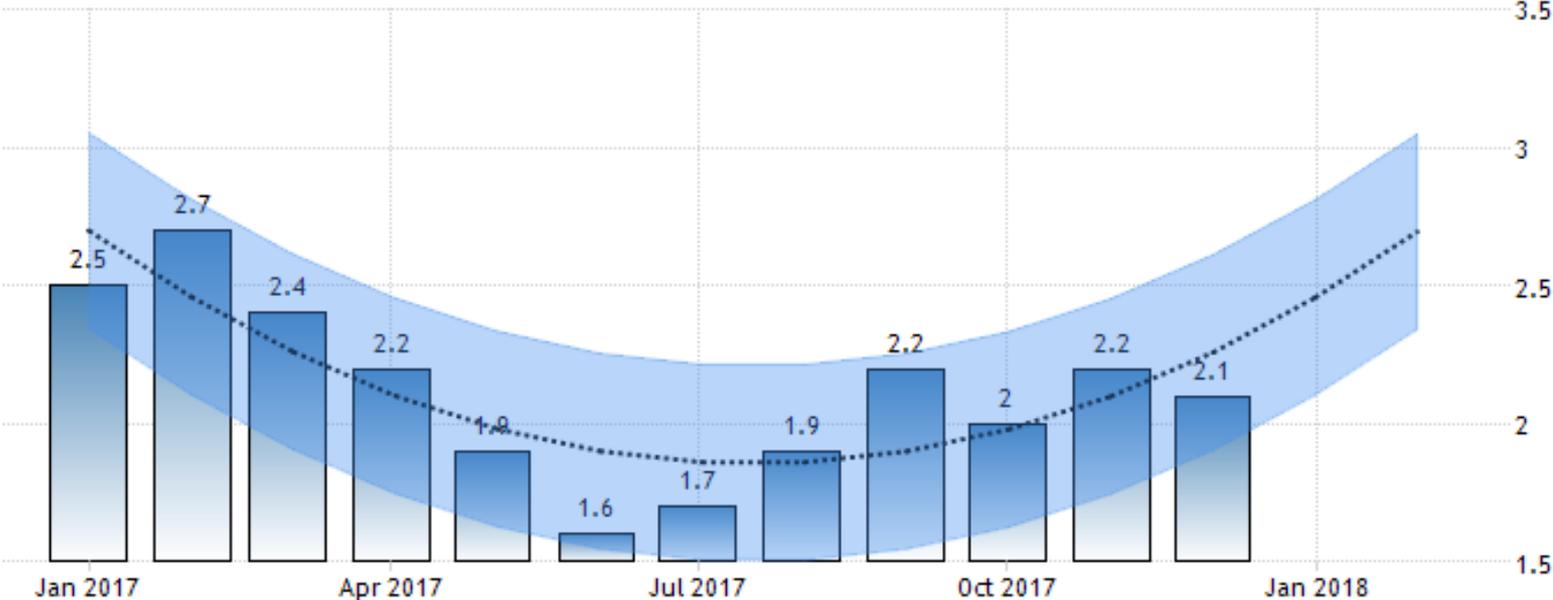
### U.S. Wage Growth



# Economic Risk Factors

## Rising Inflation

### U.S. Inflation Rate

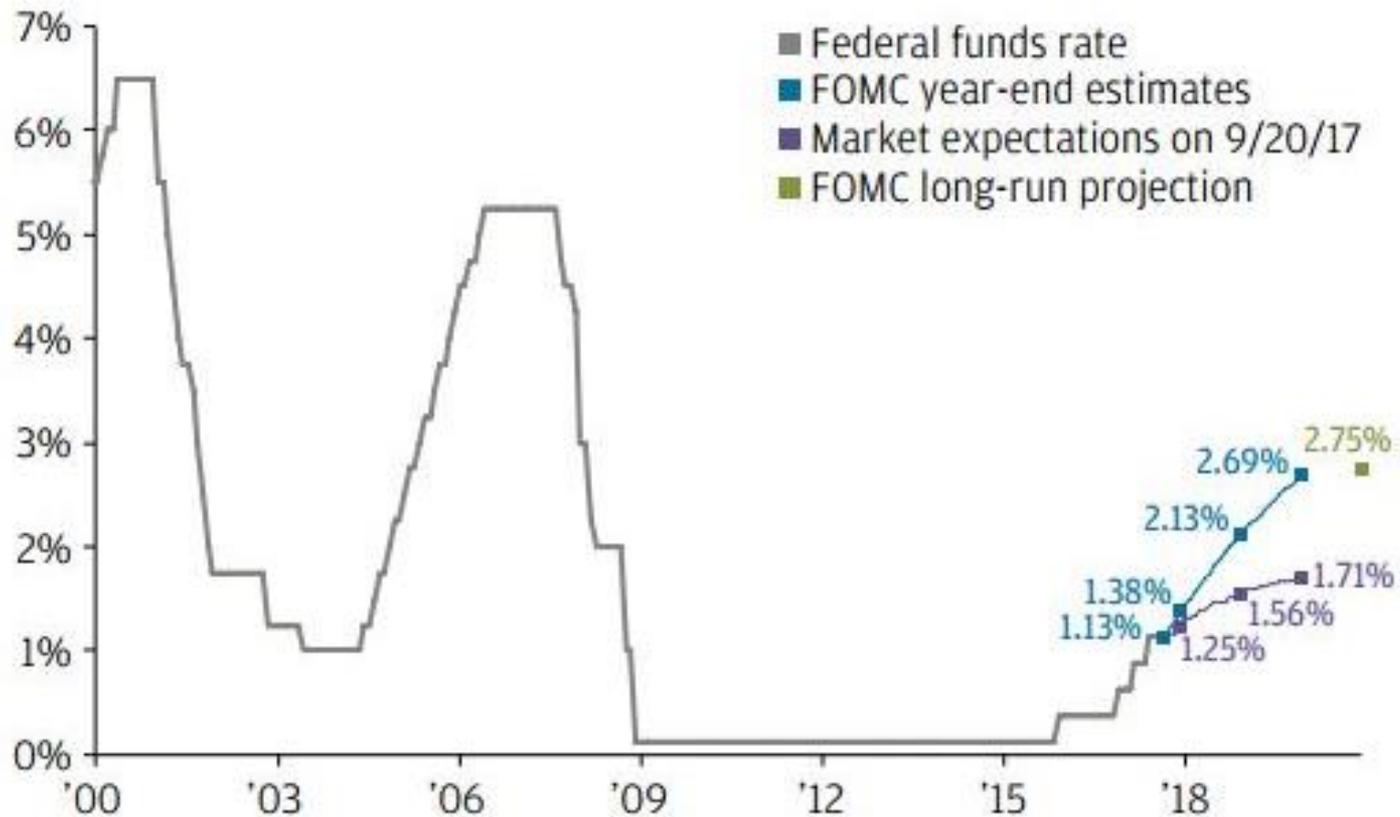


Source: TradingEconomics.com: U.S. Bureau of Economic Analysis, Jan 2018

# Economic Opportunities

## Short-Term Interest Rates Rising

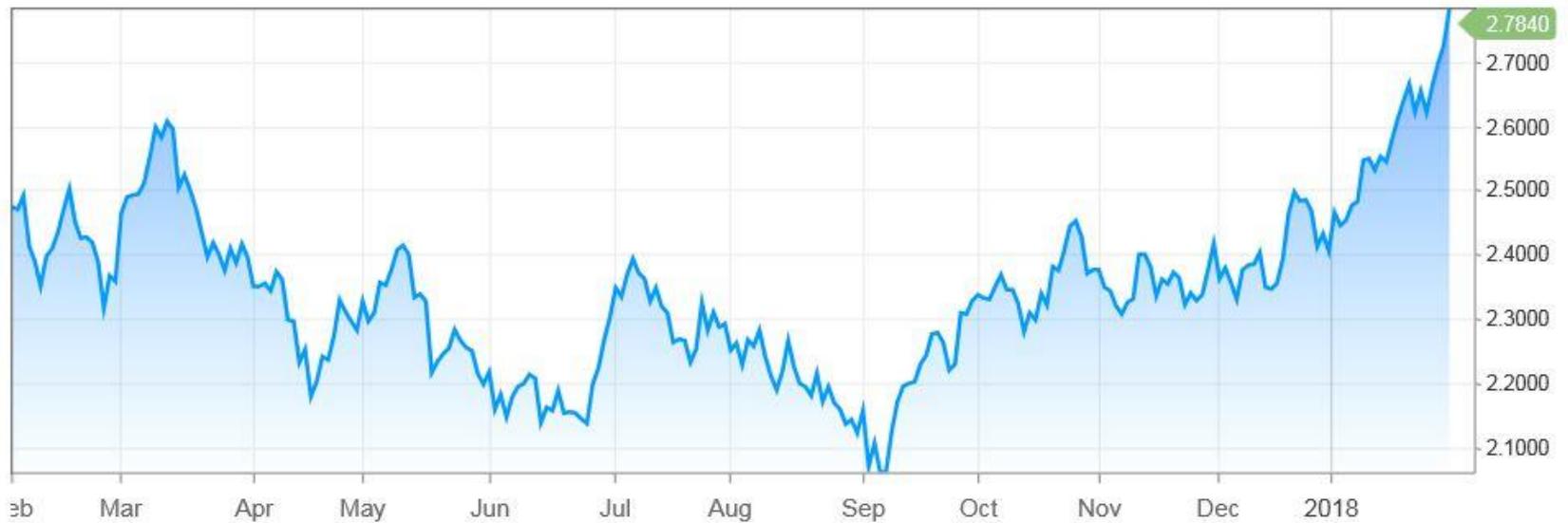
### FOMC and Market Expectations for the Fed Funds



# Economic Opportunities

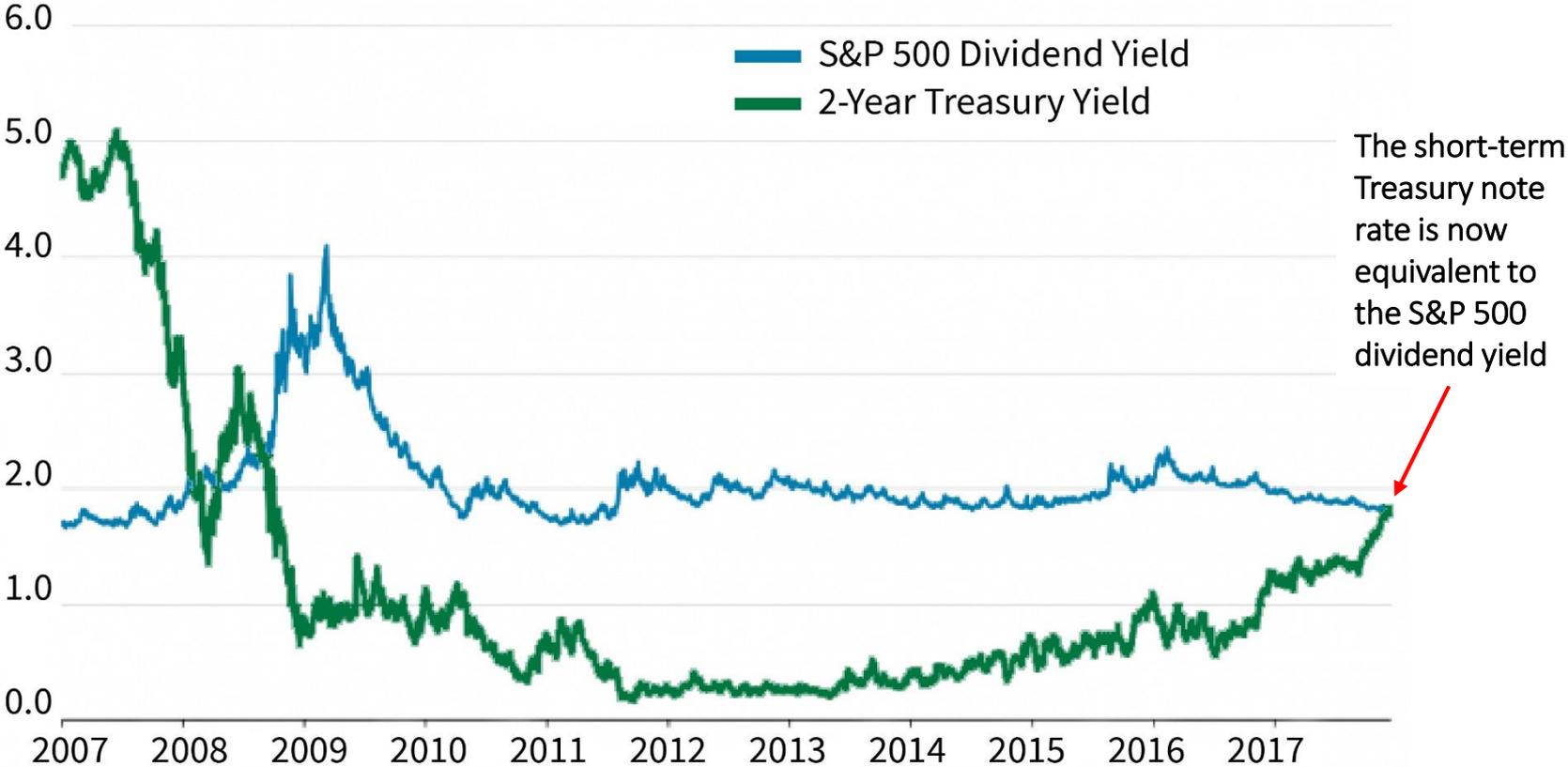
## Long Term Interest Rates Rising

### U.S. Long Term Interest Rates



# Economic Risk Factors

## Bond Yields Competing with Stock Yields

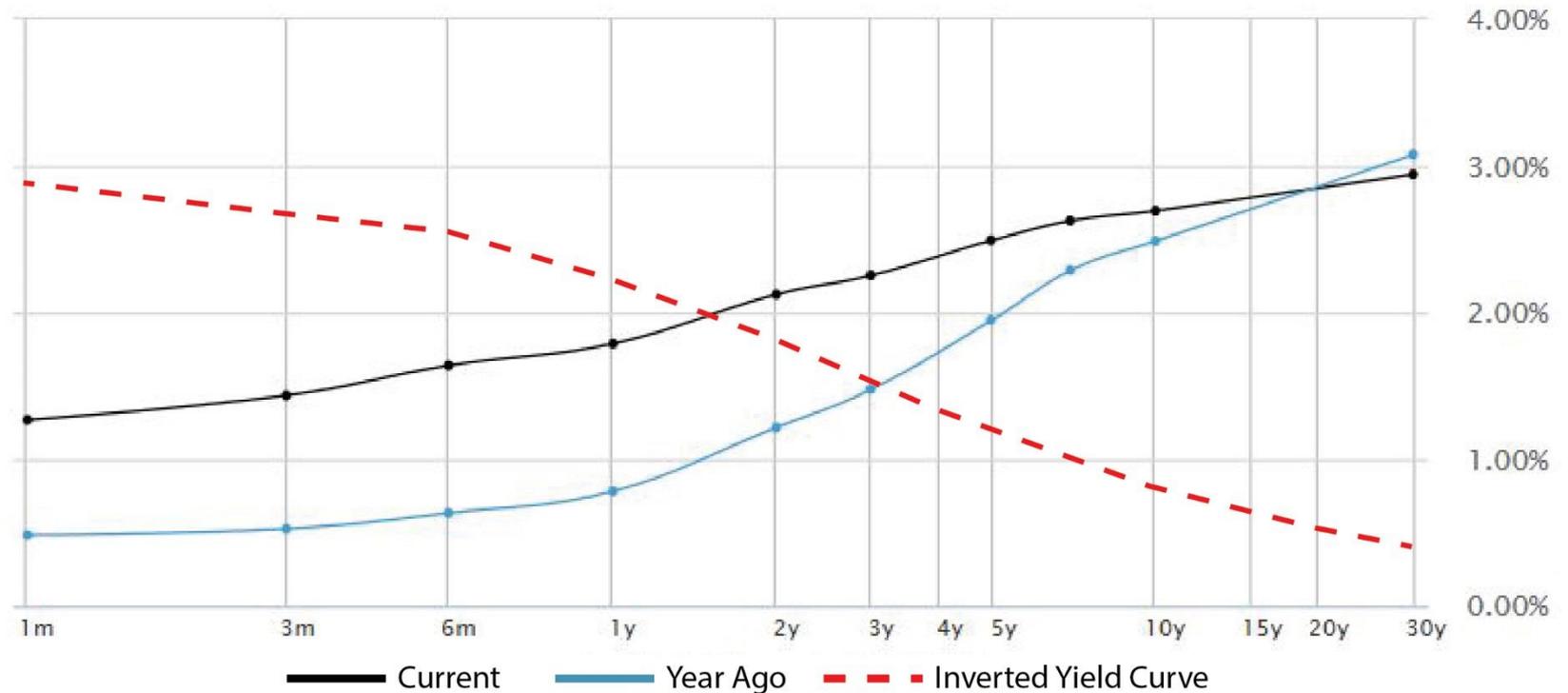


Source: Liz Ann Sounders of Charles Schwab

# Economic Risk Factors

## Yield Curve Flattening

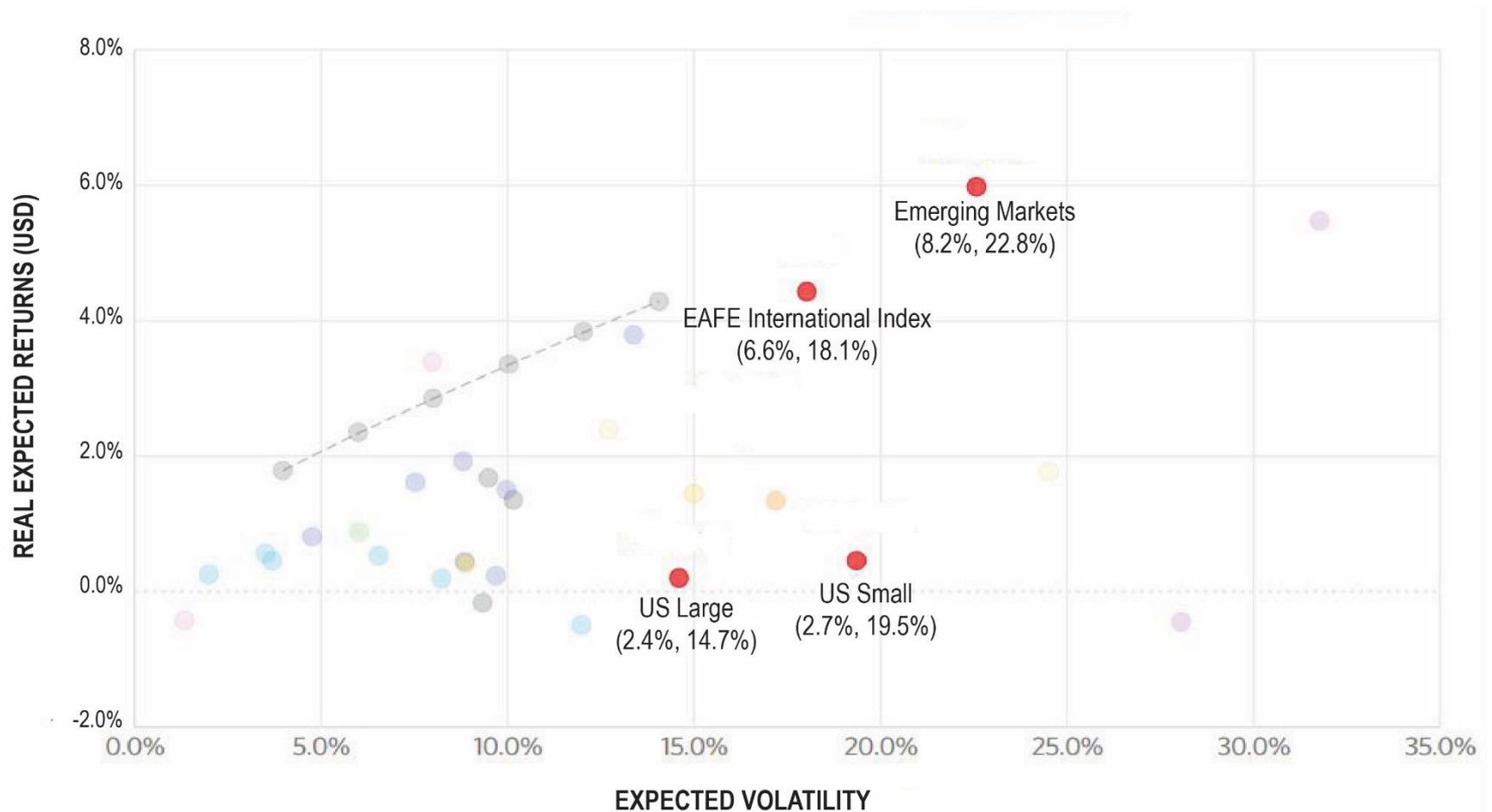
### U.S. Treasury Yield Curve



# Economic Risk Factors

## Low Forecasted Returns

### Expected 10-Year Annualized Returns



# Economic Risk Factors

## Geopolitical Issues

1. Rising anti-trade protectionism
2. Effects of tax cuts
3. Russia investigation
4. North Korea



## Capital Advantage Market Outlook 2018

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### Summary of Risks:

- Market cycle long in the tooth
- Elevated U.S. equity and U.S. bond valuations
- Below-average expected future U.S. stock returns
- Yield curve flattening: Fed rate policy
- Inflation/interest rates rising
- Correction overdue
- Geopolitical issues

Economic data points to continued/heightened volatility in 2018.



## Capital Advantage Market Outlook Summary

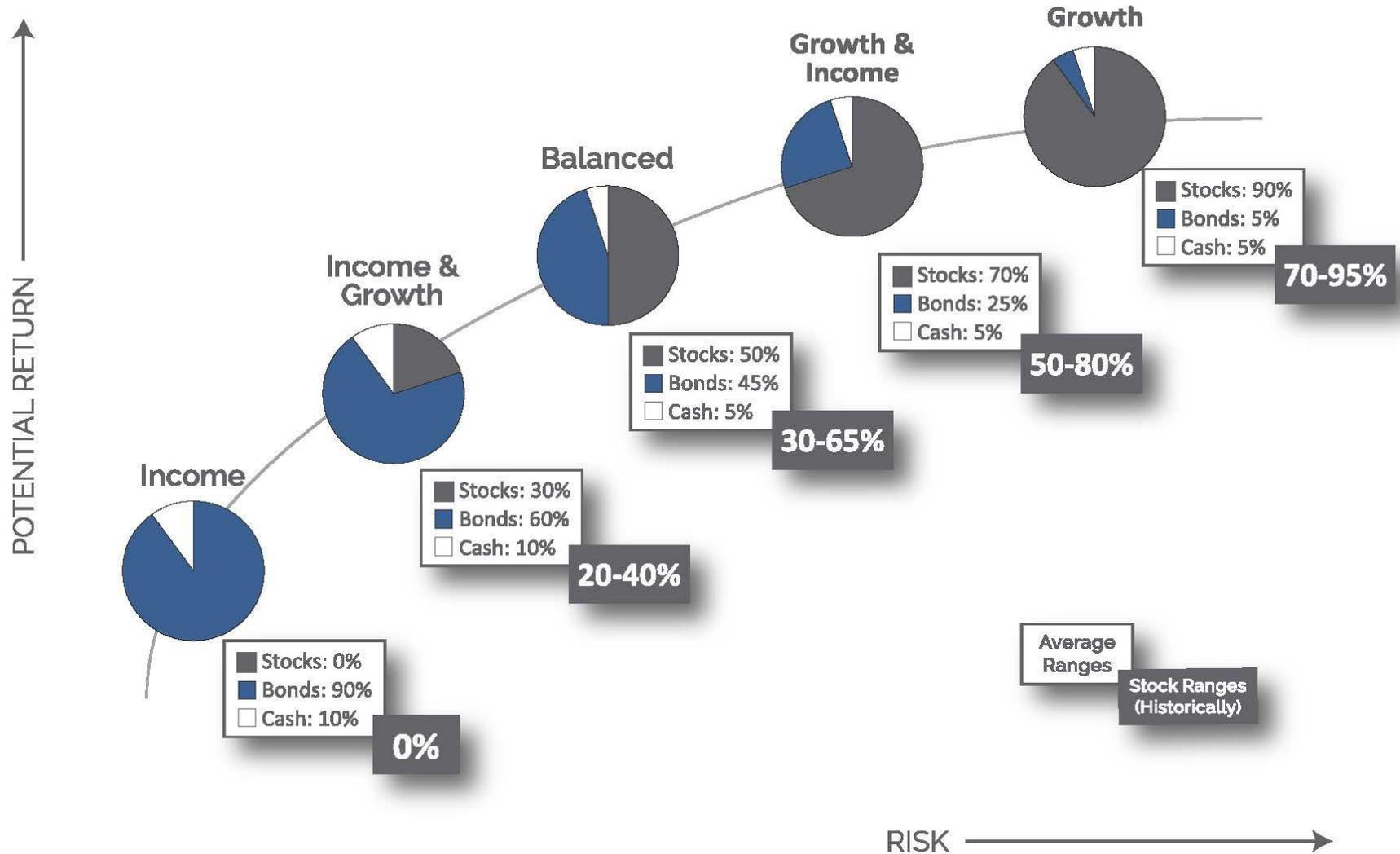
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In 2018, we expect:

- Global economic growth and no recession for first half of 2018
- Single-digit returns in stock markets
- International equities to outperform U.S. over the next 10 years
- Volatility to continue to increase
- Interest rates to rise



# Investing: Asset Allocation



Asset allocation does not assure profit or protect against loss in declining markets. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. Capital Advantage, Inc. may allocate portfolios outside target ranges as deemed necessary. Please see **Important Disclosure Information**.

## Capital Advantage Current Investment Strategy

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### Overweight:

- International developed equities
- U.S. large cap (versus small cap)
- Short-maturity bonds
- U.S. value equities (versus growth)

### Neutral weight:

- Emerging market equities
- High yield bonds

### Underweight:

- U.S. equities
- Long-maturity bonds



Capital Advantage Market Outlook 2018



# Tax Cuts and Jobs Act of 2017

Nicole Bennett, CPA



## 2017 Tax Cuts and Jobs Act

### Previous Tax Rules

#### TAXABLE INCOME

Rate	Single	Married
10%	\$0 - \$9,525	\$0 - \$19,050
15%	\$9,526 - \$38,700	\$19,051 - \$77,400
25%	\$38,701 - \$93,700	\$77,401 - \$156,150
28%	\$93,701 - \$195,450	\$156,151 - \$237,950
33%	\$195,451 - \$424,950	\$237,951 - \$424,950
35%	\$424,951 - \$426,700	\$424,951 - \$480,050
39.6%	Over \$426,700	Over \$480,050

### New Tax Rules

#### TAXABLE INCOME

Rate	Single	Married
10%	\$0 - \$9,525	\$0 - \$19,050
12%	\$9,526 - \$38,700	\$19,051 - \$77,400
22%	\$38,701 - \$82,500	\$77,401 - \$165,000
24%	\$82,501 - \$157,500	\$165,001 - \$315,000
32%	\$157,501 - \$200,000	\$315,001 - \$400,000
35%	\$200,001 - \$500,000	\$400,001 - \$600,000
37%	Over \$500,000	Over \$600,000

## Trust and Estate Taxes

<b>Trust and Estate Tax Rates</b>			
<b>Tax Cuts and Jobs Act</b>		<b>Previous law</b>	
<b>Rate</b>	<b>Taxable income</b>	<b>Rate</b>	<b>Taxable income</b>
10%	\$0-\$2,550	15%	\$0-\$2,600
24%	\$2,551-\$9,150	25%	\$2,601-\$6,100
		28%	\$6,101-\$9,300
35%	\$9,151-\$12,500	33%	\$9,301-\$12,700
37%	\$12,501 and over	39.6%	\$12,701 and over

- Reminder to move income from a bypass trust to the survivor's trust annually
- This can be done up to 60 days after the year-end to still receive the deduction

## Personal Exemptions



In exchange for increasing the standard deduction, the TCJA repeals personal exemptions.

<b>2018 Personal Exemptions</b>	
<b>Tax Cuts and Jobs Act</b>	<b>Previous law</b>
\$0	\$4,150

## Enhanced Child Tax Credit

The TCJA provides for the following credits through December 31, 2025:

- An increase in the Child Tax Credit to \$2,000 per qualifying child. Up to \$1,400 of the child tax credit will be refundable per qualifying child
- An additional nonrefundable credit of \$500 for qualifying dependents that are not qualifying children

<b>2018 Child and Other Dependent Credit</b>		
<b>Credit</b>	<b>Amount per qualifying child/dependent</b>	<b>Phaseout range</b>
Child Tax Credit	\$2,000	MFJ: \$400,000–\$440,000 Others: \$200,000–\$240,000
Dependent credit	\$500	MFJ: \$400,000–\$410,000 Others: \$200,000–\$210,000
<b>Note: There is no personal exemption deduction or credit for the taxpayer and spouse</b>		

## Standard and Itemized Deductions

The Tax Cuts and Job Acts changes the Standard Deduction as follows:

<b>2018 Standard Deduction</b>		
<b>Filing type</b>	<b>Tax Cuts and Jobs Act</b>	<b>Previous law</b>
Joint (and surviving spouse)	\$24,000	\$13,000
Head of household	\$18,000	\$9,550
Single (and MFS)	\$12,000	\$6,350

**Note:** The TCJA retains the additional standard deduction for the elderly and the blind (TCJA §11021, amending IRC §63(c))

## Medical Expense Deductions



Retains the deduction for medical expenses.

Temporarily reduces the medical expense threshold back to 7.5% AGI for 2017 and 2018 for all taxpayers.

Threshold returns to 10% after 2018.

## Deductions for State and Local Taxes (SALT)



Taxpayers may claim an itemized deduction of up to **\$10,000** (\$5,000 for married filing separately) for the aggregate of state and local income taxes and property taxes.

State and local taxes and property taxes paid while carrying on a trade of business or a rental activity remain fully deductible.

Taxpayers retain the ability to choose between state incomes taxes and sales taxes.

If you are paying NIIT tax (Obamacare taxes) it is important that your tax preparer choose to deduct state income taxes as a SALT deduction if you owe money as it is also a deduction against NIIT taxable income. If you have a refund, deduct the property taxes first as it minimizes the taxability of the state tax refund the next year.

**State and local tax limitation applies to estates and trusts as well.**

## Mortgage Interest



The TCJA provides that for tax years beginning in 2018, but before 2026, taxpayers may treat no more than \$750,000 as acquisition indebtedness (\$375,000 for married taxpayers filing separate). In the case of acquisition indebtedness incurred on or before December 15, 2017, the \$1 million limitation (\$500,000 for married taxpayers filing separate) is grandfathered in, as is any refinancing of grandfathered debt.

The TCJA provides that once its individual provisions sunset on December 31, 2025, all mortgage indebtedness, including new debt incurred after December 15, 2017, would be subject to the \$1 million (\$500,000) limitation rules.

The TCJA repeals the deduction for interest on home equity indebtedness, no matter when the debt was incurred. Effectively, interest on home equity indebtedness becomes nondeductible from January 1, 2018, through December 31, 2025.

### **Second homes**

The definition of acquisition indebtedness remains unchanged. This means mortgage interest on acquisition indebtedness continues to include mortgage interest on second homes, within the lower dollar caps.

## Home Equity Loan Interest



HELOC (or home equity borrowing) on home equity indebtedness remains deductible if the borrowing is for acquisition financing or home improvement financing, as long as the borrowing falls within the total mortgage debt dollar caps.

Equity borrowing can also be deductible if it can be “traced” to another taxable event with no debt dollar caps. Examples: equity borrowing that is loaned to a closely held business, equity borrowing that is used to invest with a financial advisor.

Caution, anytime you refinance and have equity borrowing, it is very important to talk to your tax preparer to determine the deductibility of the interest.

## Charitable Contributions



The deduction for charitable contributions is expanded so that taxpayers may contribute up to 60% of their adjusted gross income, rather than up to 50%.

## Capital Gains and Qualified Dividends

Generally, no change to the previous maximum rates on net capital gains and qualified dividends. The breakpoints will be indexed for inflation after 2018 using chained CPI.

Long-Term Capital Gains Rate	Single Taxpayers	Married Filing Jointly
0%	Up to \$38,600	Up to \$77,200
15%	\$38,600-\$425,800	\$77,200-\$479,000
20%	Over \$425,800	Over \$479,000

## Alternative Minimum Tax

Beginning in 2018, the AMT exemption increases as follows:

<b>2018 AMT Exemption Amounts</b>		
<b>Filing status</b>	<b>Tax Cuts and Jobs Act</b>	<b>Previous law</b>
Single, HOH	\$70,300	\$55,400
MFJ, surviving spouse	\$109,400	\$86,200
MFS	\$54,700	\$43,100

Also beginning in 2018, the phase-out thresholds for the exemption increase as follows:

<b>Beginning of 2018 AMT Exemption Phase-out Ranges</b>		
<b>Filing status</b>	<b>Tax Cuts and Jobs Act</b>	<b>Previous law</b>
Single, HOH	\$500,000	\$123,100
MFJ, surviving spouse	\$1,000,000	\$164,100
MFS	\$500,000	\$82,050

## Estate Tax Modifications



The basic exclusion amount is doubled from \$5 million (adjusted for inflation after 2011) to \$10 million, which will also be indexed for inflation.

With inflation adjustments, the 2018 exclusions will presumably be \$11.2 million.

**THIS IS NOT PERMANENT!!** After 2025, the basic exclusion will drop back down to \$5 million + indexed for inflation.

## Retirement Changes



TCJA repeals the rule allowing taxpayers to recharacterize Roth IRA contributions as traditional IRA contributions to unwind a Roth conversion.

Allows employees whose retirement plan terminates or who separates from employment while they have outstanding plan loans to contribute the loan balance to an IRA by the due date for filing their tax return, including extensions, for that year in order to avoid the loan being taxed as a distribution.

## Other Notable Provisions Affecting Individual Taxpayers Include:



- The Tax Cuts and Job Acts allows distributions from Section 529 accounts in connection with K-12 education, up to \$10,000 per year.
- The TCJA simplifies kiddie tax by applying ordinary and capital gains rates applicable to trusts and estates to the net unearned income of a child. The kiddie tax is no longer linked to the income of the parent or unearned income of any siblings.
- Miscellaneous itemized deductions subject to the 2% AGI floor are repealed and no longer deductible. If you are an employee whose employer does not reimburse you for unreimbursed employee business expenses, it is time to go back to the employer and renegotiate a reimbursement plan.
- Casualty losses are no longer deductible, except in a case of a presidentially-declared disaster. This is bad news for people who have been involved in a Ponzi scheme or suffer losses that not reimbursed by insurance.

## Miscellaneous Business Provisions:



- Bonus depreciation under TCJA provides immediate expensing of 100% of the cost of qualified property acquired after 9-27-2017 and before 1-1-2023. It also removes the requirement that the property be new; it can now be new or used.
- Section 179 depreciation increased to \$1 million and is indexed annual after 2018 (up from \$500,000 under old law).
- Luxury auto limits on depreciation have been greatly increased.
- Deprecation life for qualified leasehold improvements goes to 15 years.
- Entertainment expenses in the form of golf outings, fishing trips, tickets to professional sporting events and theater tickets are no longer deductible.
- Food and beverage for both entertainment and qualified travel is still deductible, subject to the 50% limitation.
- Section 1031 exchanges now only apply to real property not held primarily for sale.

## Section 199A Deduction for Qualified Business Income of “Pass-Through” Entities



This section is clearly the most complicated part of the entire TCJA.

The deduction reduces taxable income, NOT income subject to self-employment tax.

Does NOT apply to C Corporations, which are taxed at 21% under the TCJA.

Who Qualifies?

- Sole Proprietors
- S-Corporations
- LLC's
- Partnerships
- Schedule E Rentals
- Estates & Trusts

Taxable income limits:

- **The deduction is limited to 20% of the lessor of:**
  - Net qualified business income; or
  - Taxable income before the deduction and after reduction of any net capital gains

## Section 199A Deduction for Qualified Business Income of “Pass-Through” Entities



Phase-out Ranges:

- Married filing joint: \$315,000-\$415,000; and
- All other filing statuses: \$157,500-\$207,500

## Section 199A Deduction for Qualified Business Income of “Pass-Through” Entities



### Phase-out for specified service businesses

- Owners of service businesses can take the deduction if their income is below the top of the phase-out ranges,
- Specified service businesses above the upper phase-out range lose the deduction entirely,
- Non-specified service business within or above the phase-out ranges, the deduction is limited to the greater of:
  - 50% of the W-2 wages paid by the business; or
  - The sum of:
    - 25% of the W-2 wages paid by the business; plus
    - 25% of the unadjusted basis immediately after acquisition of depreciable property.

Conclusion



Questions?

Thank you for joining us.



## Important: Disclosure Information



Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Capital Advantage, Inc.), or any non-investment related services, will be profitable, equal any historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Capital Advantage, Inc. is neither a law firm nor accounting firm, and no portion of its services should be construed as legal or accounting advice. Please remember that it remains your responsibility to advise Capital Advantage, Inc., in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees is available upon request. **Please Note:** The scope of the services to be provided depends upon the terms of the engagement. **Please Also Note:** Fixed income markets are currently at historically low interest rates. Although bonds have historically presented less principal risk than stocks, a rise in interest rates from the current historic lows will have an adverse impact on bond principal. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement.