



Tips for investing under the new tax law

From real estate to 529 plans, the rules have changed for some investments

BY DANIEL COHEN

There was an endless debate during 2017 about tax reform and who should be the greatest beneficiary of the changes.

In the end, tax rates are lower for most individuals and corporate tax rates will be significantly lower under the Tax Cuts and Jobs Act of 2017.

The tax code is still complex, and the changes didn't do anything to simplify it, which was one of the goals of reform. But, in general, investment and retirement planning strategies were not significantly changed by the tax reform, although there are some potentially significant differences.

Passive real estate income

Among the changes, however, passive investments in income-producing real estate will greatly benefit as the income generated will qualify for a 20 percent deduction. This is the first time that real estate income has been taxed at a tax advantaged rate and real estate investments still get the tax benefits of depreciation deductions and interest expense deductions, both with some limitations.

Someone in the highest 37 percent tax bracket will be taxed at 29.6 percent on their real estate income while someone in the 24 percent tax bracket will be taxed at 19.2 percent. These examples apply to passive investors in property, as the rules are different for active investors whose primary business is real estate.

Qualified dividends

One of the real benefits in the tax code is the treatment of qualified dividends, which are tax-free up to a \$50,600 income for an individual. Shares of companies like Kraft Heinz, Merck,

Chevron, Coca Cola, Pfizer and Procter & Gamble pay qualified dividends of greater than 3 percent while companies like Verizon and AT&T pay better than 4 percent. Those qualified dividends are taxed at a lower rate than one's ordinary tax rate.

The qualified dividend benefit is meaningful to retirees who live off their investment income. They could put money in the bank and pay a 12 percent tax on the interest the bank pays or invest in companies that pay qualified dividends and pay no tax up to the \$50,600 limit. Above that, the tax rate goes to 15 percent, and at higher income levels, it goes to 20 percent. But at all levels of income, qualified dividends are taxed less than earned income or interest income.

Roth accounts

With the new, lower tax rates, more savers may want to consider Roth contributions as the value of a tax deduction is worth less when tax rates are lower.

Roth contributions don't get any current tax deduction, but all future growth in the account is tax-free when used in retirement. If tax rates go back up in the future, the value of having Roth accounts increases. Just as it is advisable to pay off mortgage and other debt before retirement, saving more in Roth accounts helps reduce or even eliminate tax liabilities in retirement.

Health savings accounts

Health Savings Accounts allow participants to contribute up to \$3,450 for an individual or \$6,900 for a family and an additional \$1,000 if 50 or older. The contribution gets a tax deduction and any growth in the account will be tax-free if used for medical expenses in the future.

An astute saver will max out the HSA and allow the account to grow to be used in retirement for medical expenses. Just like the Roth IRA, this type of account provides tax-free growth, and it provides a tax deduction. The accumulated funds in an HSA can be invested in growth-oriented mutual funds.

Expanded 529 opportunities

529 plans allow funds to be invested, and the growth is tax-free if used for higher education. Under the new tax code, funds in these plans can now be used for private education for kindergarten through high school. Grandparents can also help the next generation by funding 529 accounts. Savings in 529 plans can be transferred to siblings if necessary.

There are many more details to what is still a very complicated U.S. tax code. Working closely with your financial and legal professionals is always advisable, if not necessary, when major changes in tax law such as the Tax Cuts and Jobs Act of 2017 occur.

Keep in mind the tax rate changes that affect individuals expire at the end of 2025. Also, the 3.8 percent additional tax on investment earnings due to the Affordable Care Act on incomes over \$200,000 for single taxpayers and \$250,000 for married taxpayers still applies.

Overall, if the intended economic benefits resulting from the taxation side of this fiscal policy come to fruition, it's likely that more people will participate in the economy not only as producers and consumers, but savers and investors as well.

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