



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar
January 26, 2018

Presented by:
Shannon King,
Jonathan Scharlau
and Kathy Nelson

Introduction

- Shannon King, CPA, CFP[®], PFS, CIMA[®], CPWA[®], MBT
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP[®]
Partner and Lead Analyst
- Kathy Nelson, CPA, CFP[®], PFS
Partner

Agenda

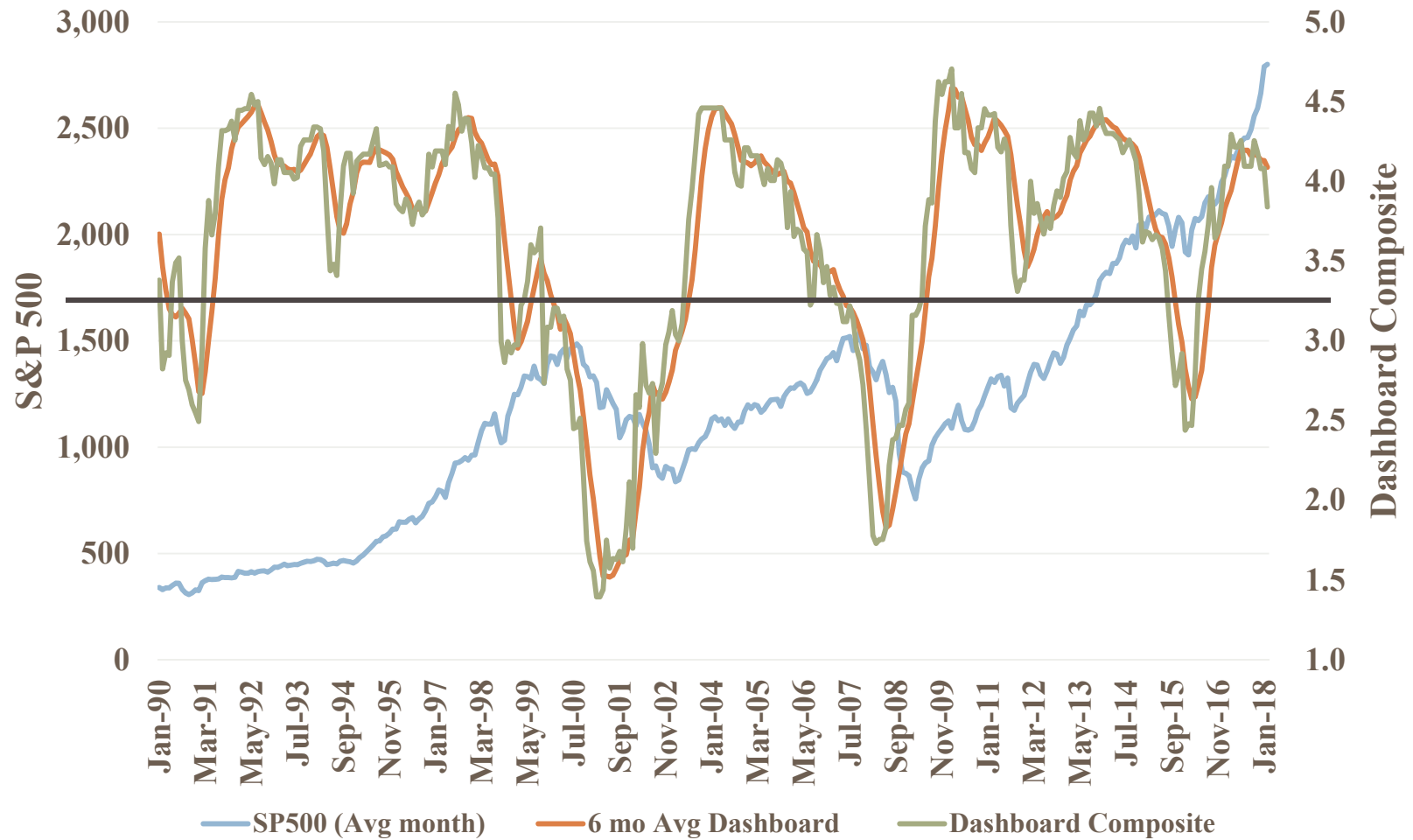
- Economic data
- Market data
- SilverOak's outlook
- SilverOak updates and “New Year” planning tips
- New tax law update
- Questions

*Economy:
Continued Growth
During 4th Quarter*

Market Dashboard

	1Q 2014	2Q 2014	3Q 2014	4Q 2014		1Q 2015	2Q 2015	3Q 2015	4Q 2015		1Q 2016	2Q 2016	3Q 2016	4Q 2016		1Q 2017	2Q 2017	3Q 2017	4Q 2017
Economy																			
Credit Markets																			
Valuations																			
Market Sentiment																			
Composite																			

Market Dashboard



Current Economic Factors

Positive

Credit Conditions

Housing

Consumer Confidence ↓

Employment ↓

Corporate Sector ↑

Neutral

Commodity Prices

Interest Rates ↓

U.S. Politics

U.S. Dollar ↑

U.S. Inflation

Global Growth ↑

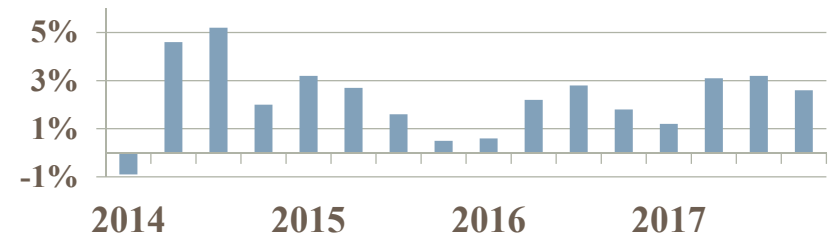
Geopolitics ↓

Eurozone ↑

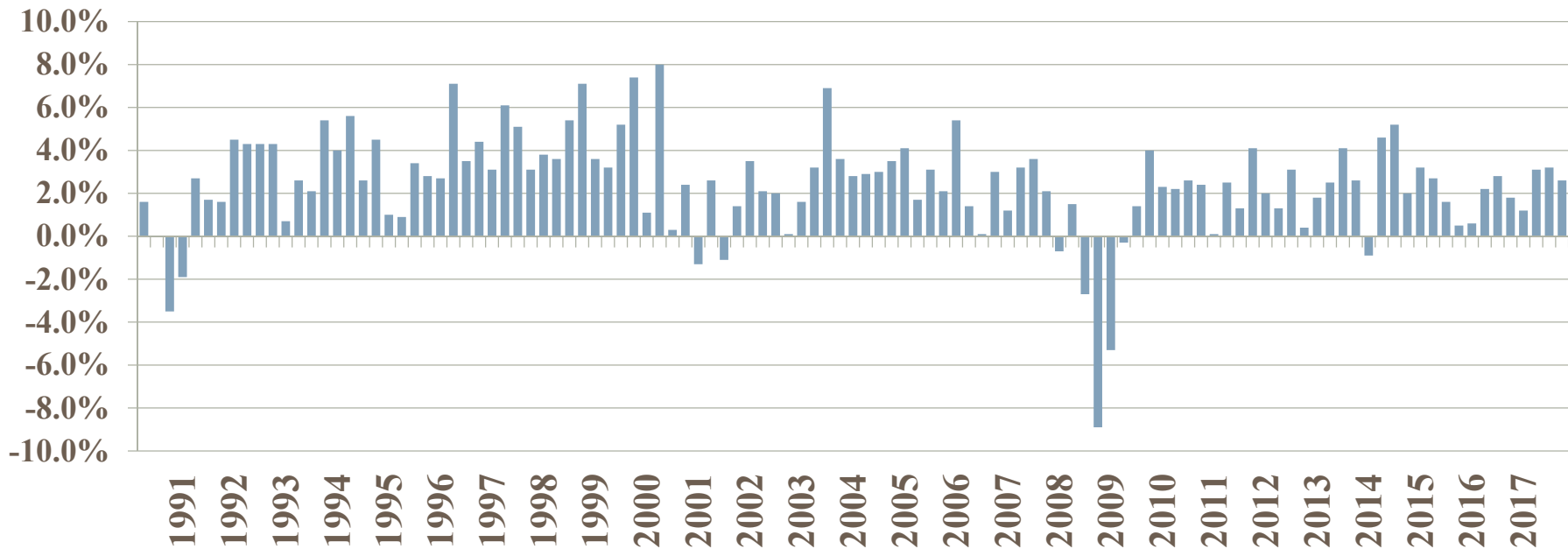
China

Negative

GDP Growth Rate Relatively Strong in Q4

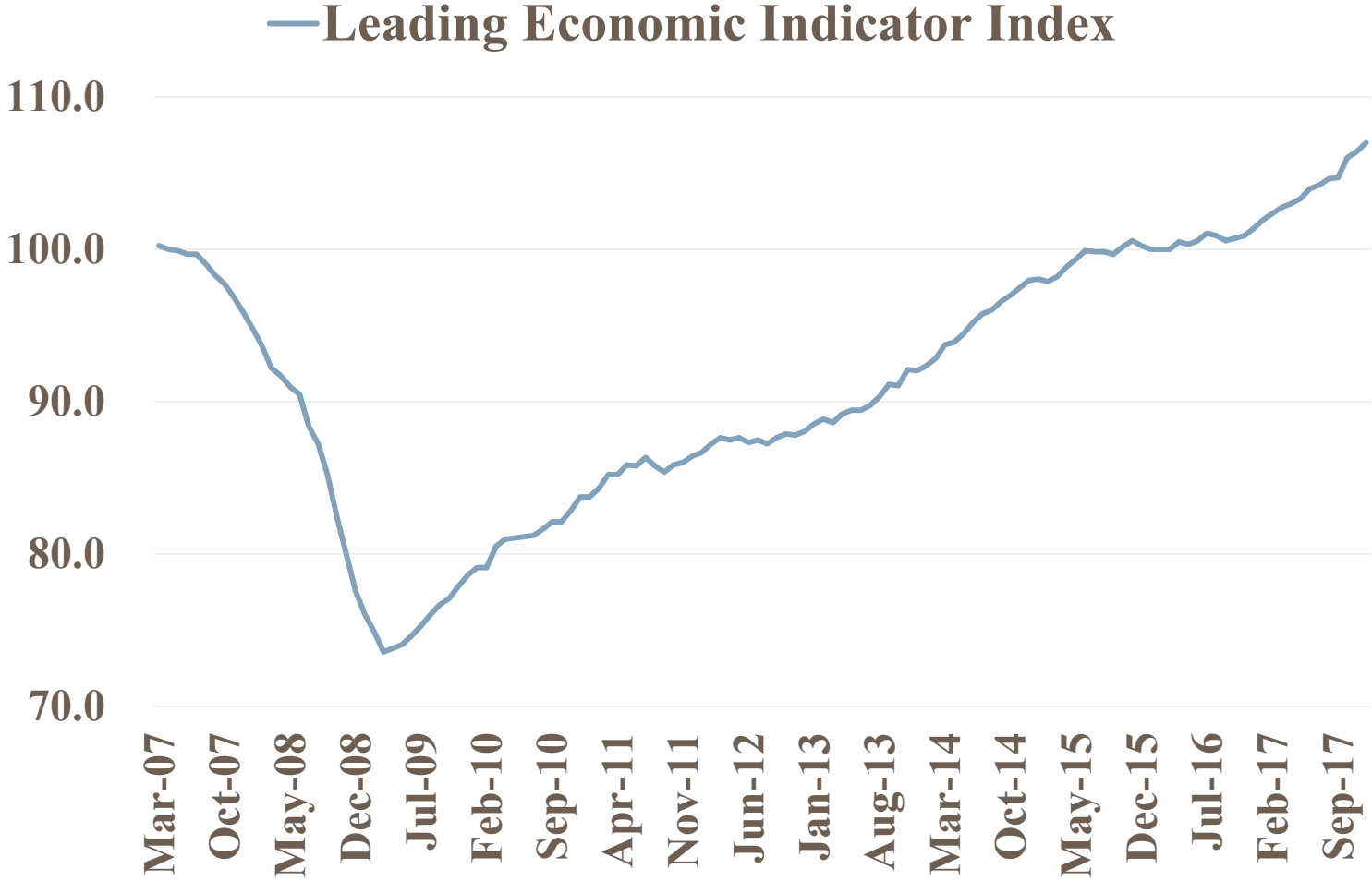


Real GDP % Annualized Rate



Source: Bureau of Economic Analysis

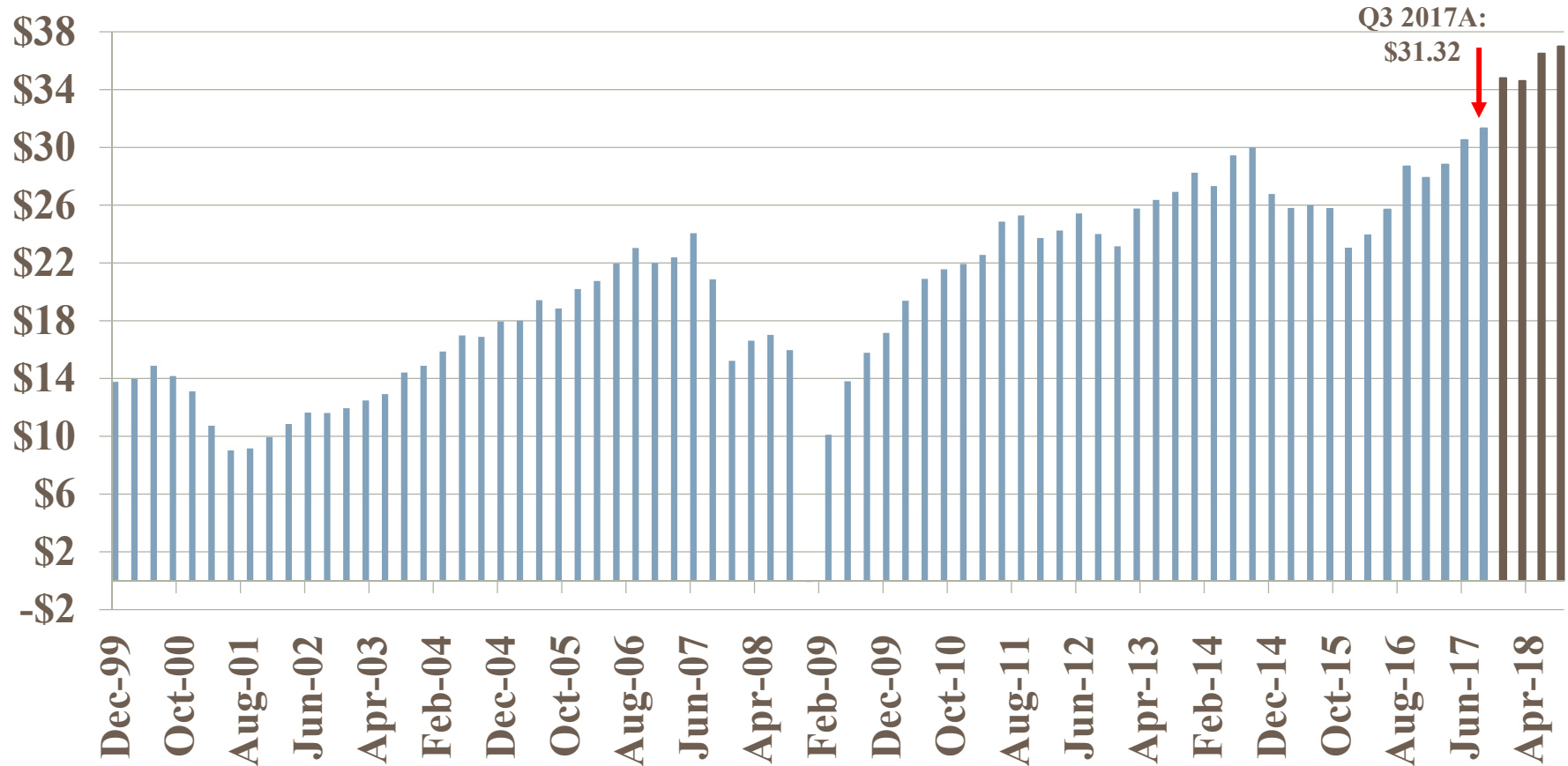
Leading Indicators Continue to Trend Higher



Source: The Conference Board

Earnings Hit New Highs

S&P 500 Quarterly Operating Earnings



Source: Standard & Poor's, J.P. Morgan Asset Management

Markets:

*Solid 4th Quarter Equity
Returns Add to Strong
2017 Returns*

Market Summary

■ Equity market performance

	<u>Q4</u>	<u>2017</u>
– US large cap		
• S&P 500	+6.6%	+21.8%
– US mid cap		
• Russell Midcap	+6.1%	+18.5%
– US small cap		
• Russell 2000	+3.3%	+14.7%
– International equities		
• MSCI ACWI ex US	+5.0%	+27.2%
– International small cap		
• MSCI ACWI ex US SMID	+6.1%	+30.4%
– Emerging markets		
• MSCI Emerging Markets	+7.4%	+37.3%

Market Summary

■ Bonds and other asset class performance

	<u>Q4</u>	<u>2017</u>
– US fixed income		
• Barclay's Aggregate	+0.4%	+3.5%
– Global fixed income		
• Barclay's Global ex US	+1.6%	+10.5%
– Commodities		
• Bloomberg Commodity TR	+5.5%	+3.0%
– Long short		
• Morningstar Long Short	+3.5%	+10.7%
– REITS		
• Wilshire US REIT	+1.7%	+4.2%

Equity Market Conditions

■ Fourth Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	5.3%	6.6%	7.9%
Mid	5.5%	6.1%	6.8%
Small	2.0%	3.3%	4.6%

■ 2017

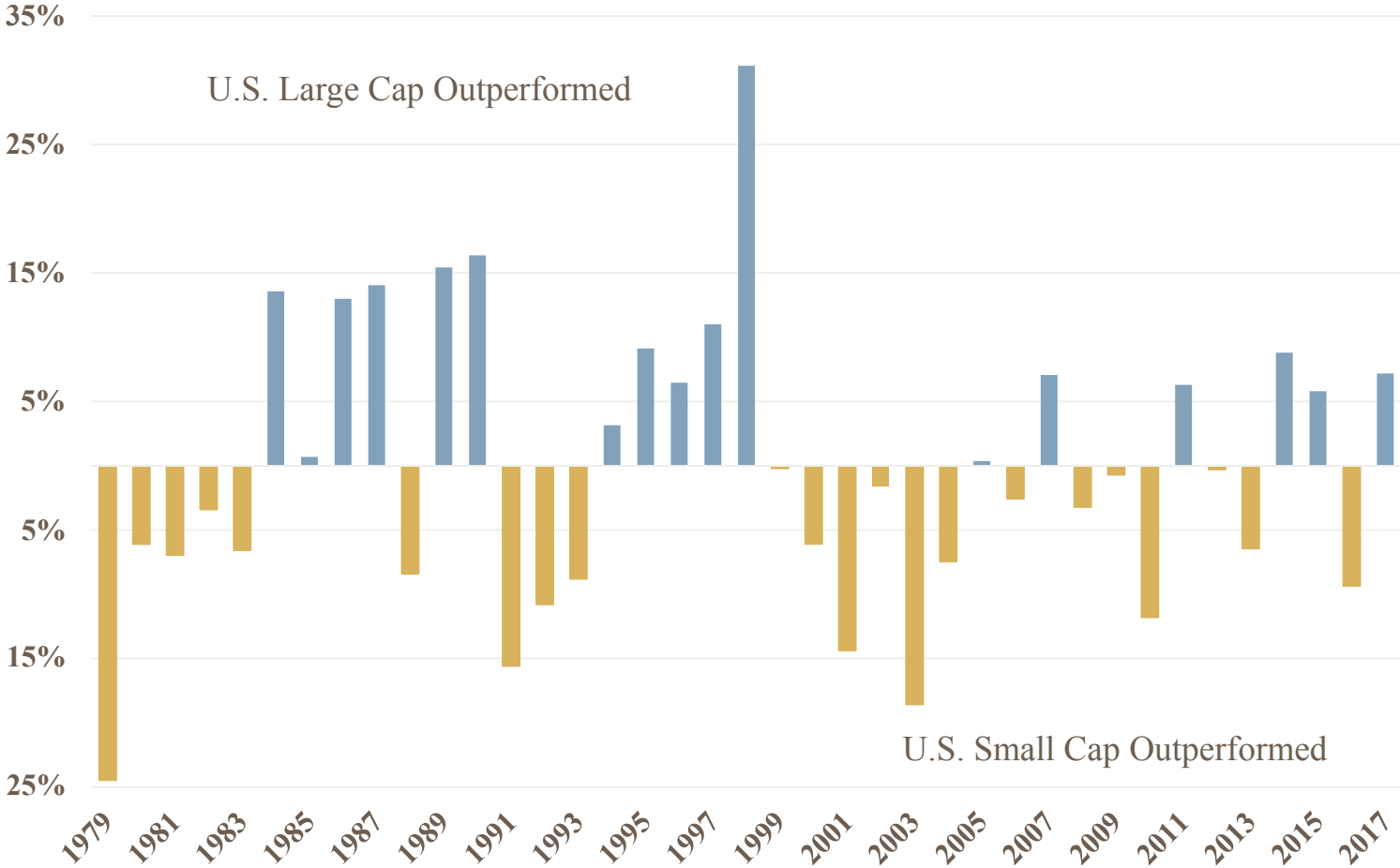
	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	13.7%	21.8%	30.2%
Mid	13.3%	18.5%	25.3%
Small	7.7%	14.6%	22.2%

All calculations are cumulative total return as of 12/31/2017.

Russell style indices utilized for all performance with the exception of large blend, which reflects the S&P 500 Index.

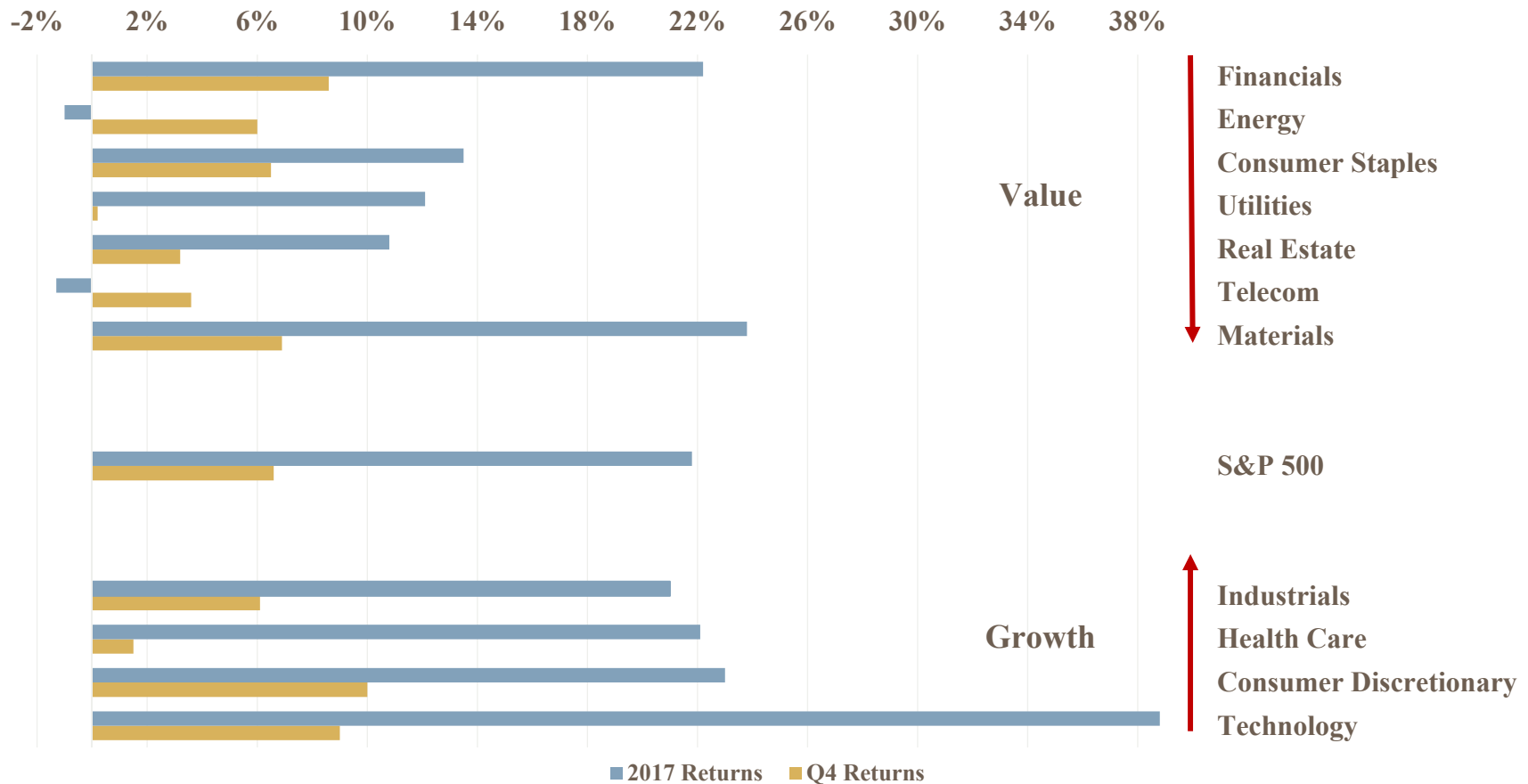
Past performance is no guarantee of future success.

U.S. Large Cap vs. Small Cap Equities



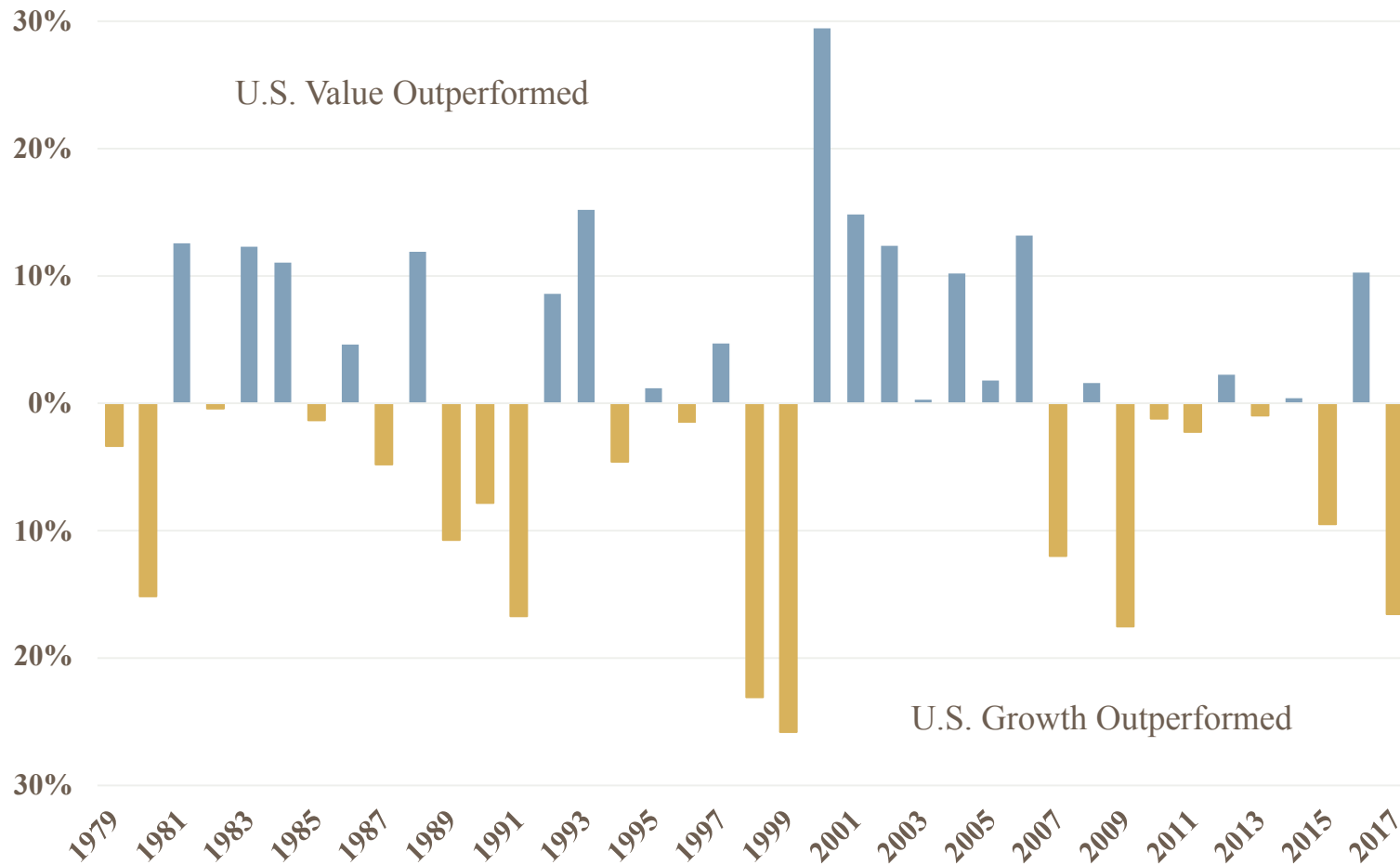
Based on S&P 500 TR and Russell 2000 TR Indices , as of 12/31/17

Growth Continues to Lead the Way



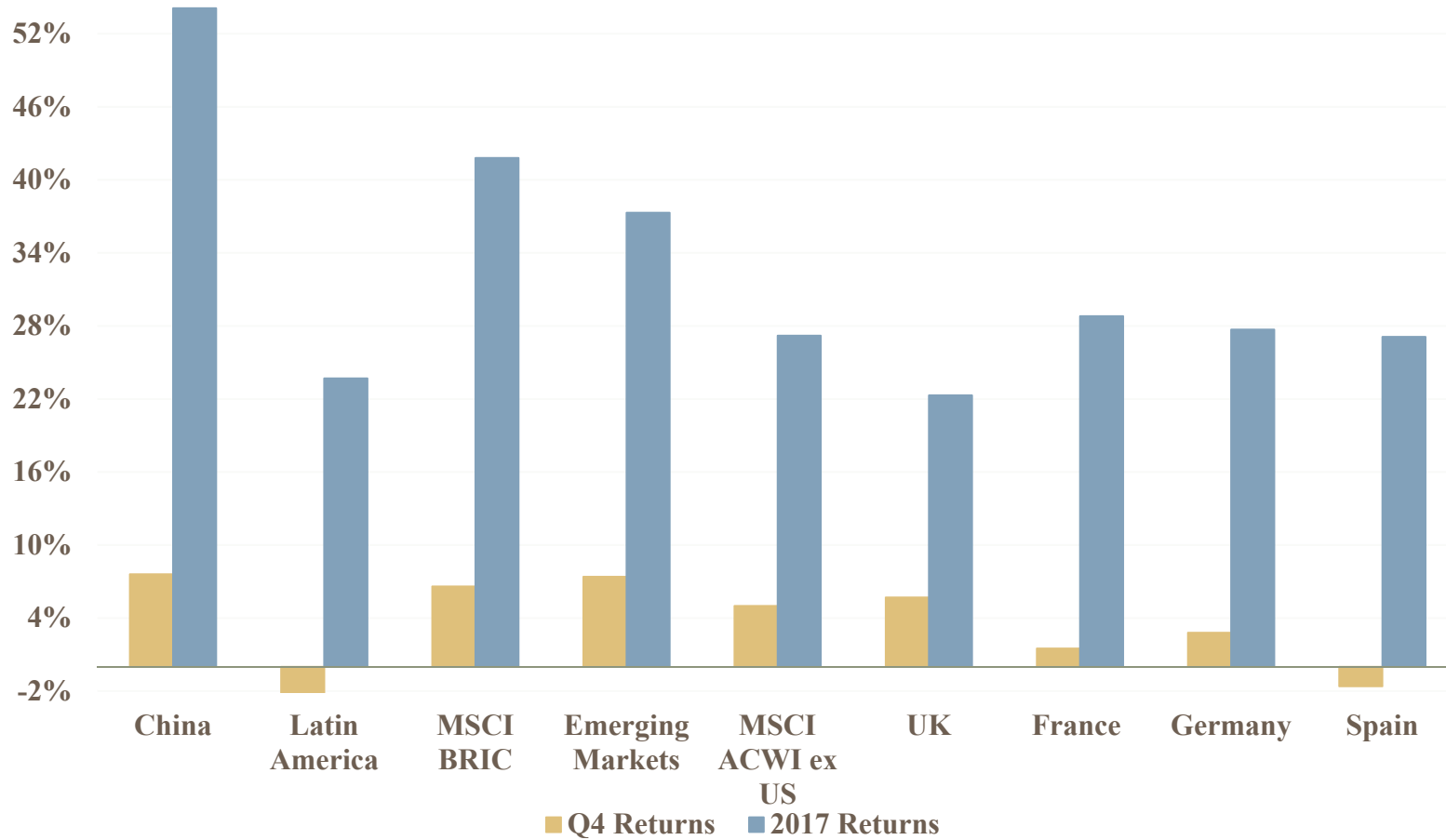
Past performance is no guarantee of future success.

U.S. Growth vs. Value Equities



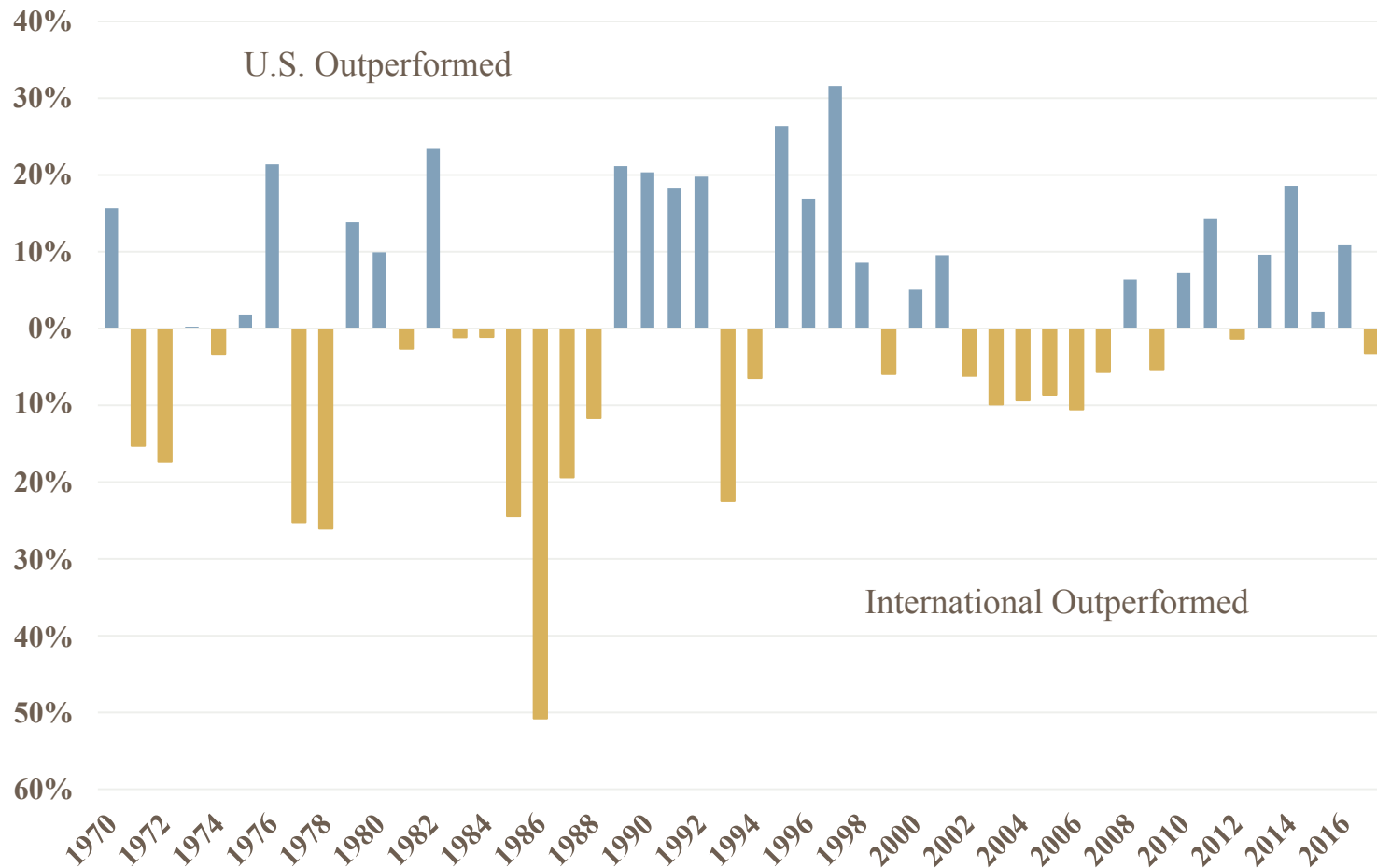
Based on Russell 1000 Value TR and Russell 1000 Growth TR Indices , as of 12/31/17

Strong International Returns in 2017



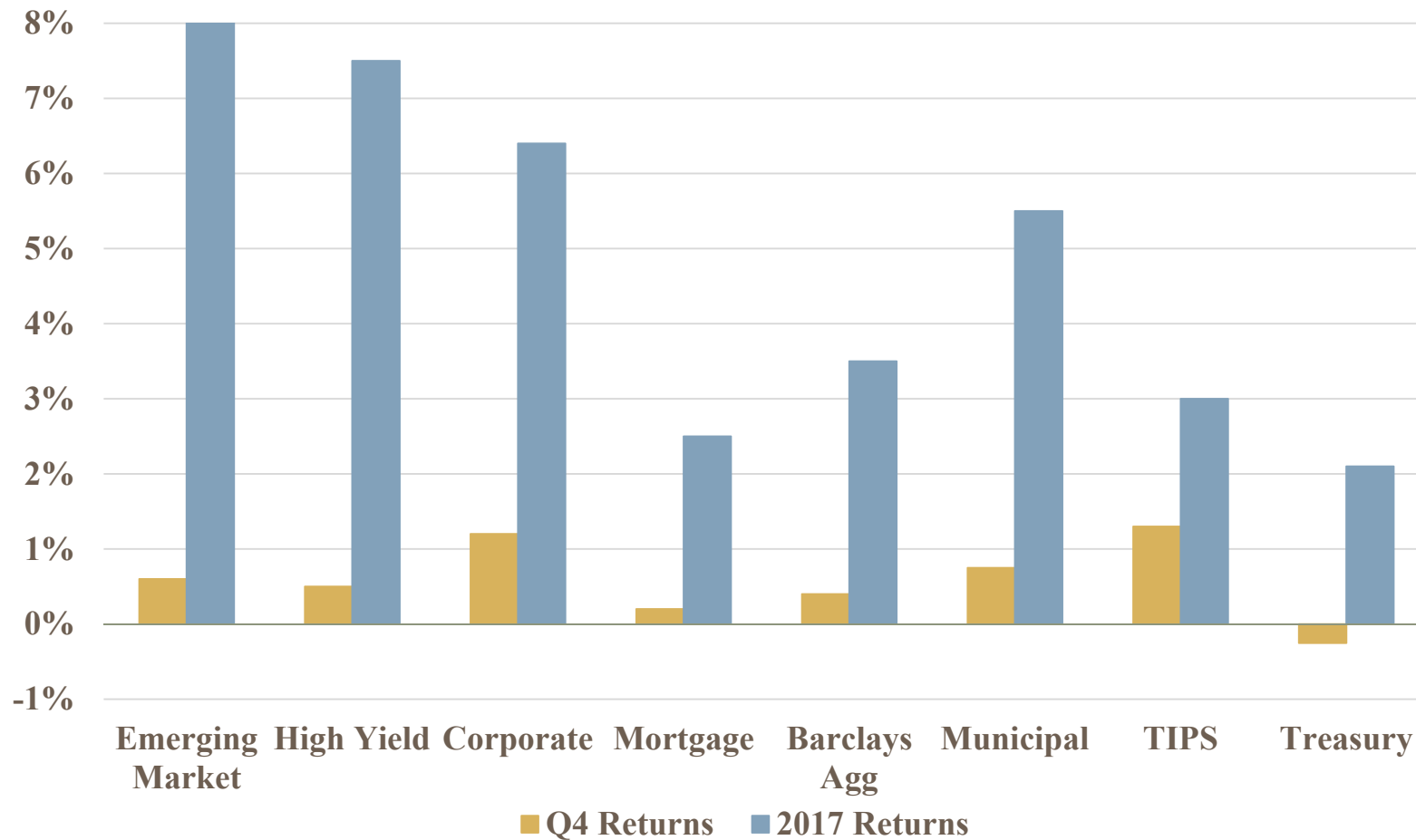
Past performance is no guarantee of future success.
Returns in US dollars.

U.S. vs. International Equities



Based on S&P 500 TR and MSCI EAFE NR Indices, as of 12/31/17

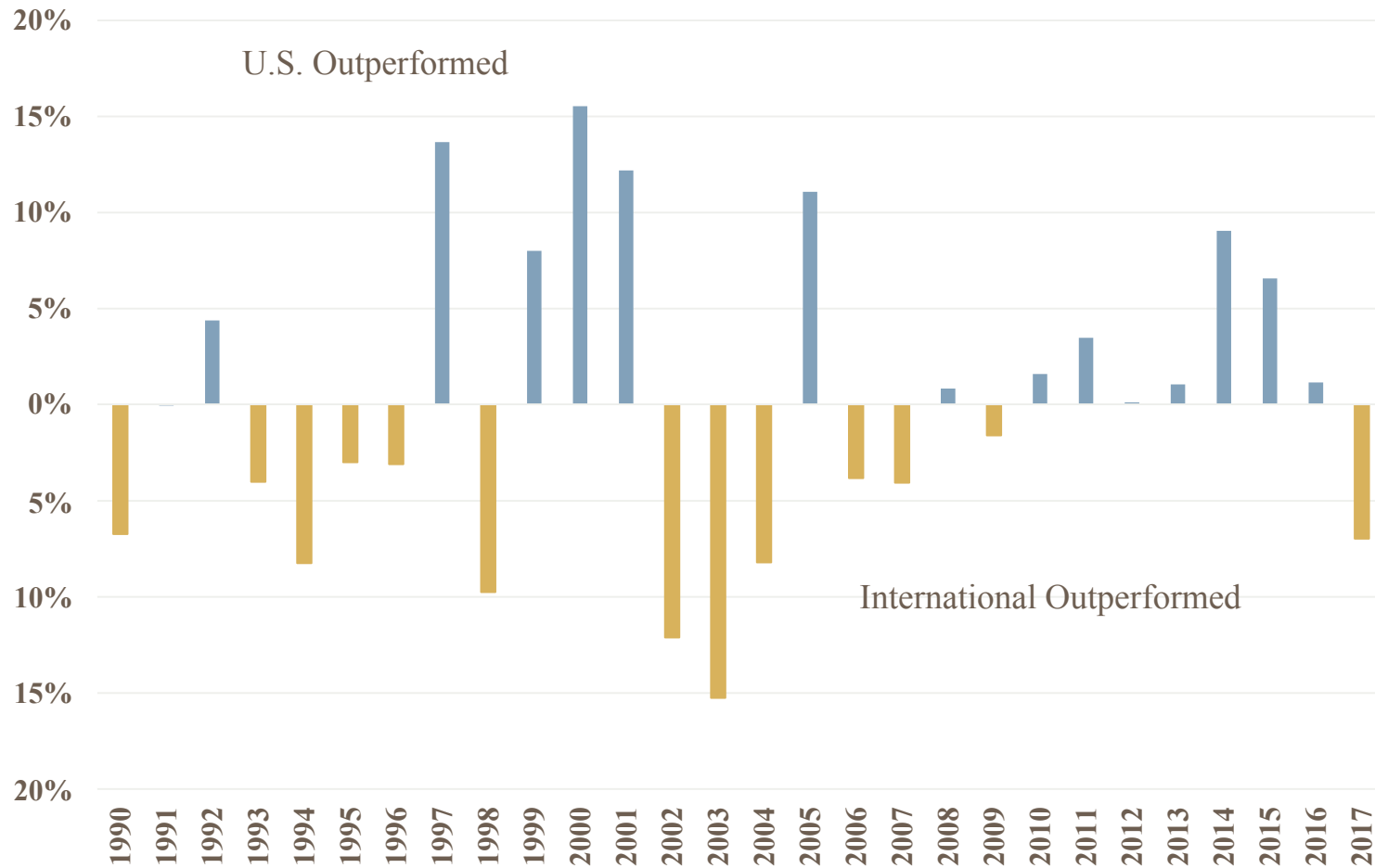
Surprisingly Strong Bond Returns in 2017



Past performance is no guarantee of future success.

Returns in US dollars.

U.S. vs. International Bonds



Based on BBgBarc US Agg Bond TR USD TR and BBgBarc Gbl Agg ex USD TR USD Indices, as of 12/31/17



SilverOak's Outlook

SilverOak's Outlook

■ U.S. Economy

- Growth continues at expansion trend
 - Most economic indicators point to continued solid growth
 - Recession risk appears to be very low
 - Corporate tax cut likely to add modestly to 2018 growth
- Corporate earnings rebound continues
 - Strong earnings growth expected in 2018
- Faster growth could spur inflation and cause the Federal Reserve to be more aggressive in tightening

■ International Economy

- Global expansion likely to continue and could cause international currencies to strengthen relative to US dollar
- Strong earnings growth from international companies
- Other central banks likely to tighten modestly in 2018

SilverOak's Outlook

■ Equity Market Outlook

- With above average valuation, more modest returns are likely in 2018 and dependent on meeting relatively high earnings growth expectations
- Volatility likely to increase and could be driven by a “wild card” event, the Fed tightening too aggressively in 2018 or a faster than expected increase in inflation

■ Positioning

- Maintain diversified mix across equity sectors
 - Unlikely that the growth/value gap of 2017 will be repeated!
- International equities offer compelling valuations and improving fundamentals
- “Real assets” may offer protection against an upside inflation surprise

SilverOak's Outlook

■ Fixed Income Outlook

- The Fed likely to raise rates at least three times in 2018 and stay on course to unwind QE
- Bond yields likely to rise but remain contained
- Volatility likely to continue as fixed income markets react to economy and wide range of policy outcomes

■ Positioning

- Bonds should provide protection when stock volatility increases
- Maintain diversified mix of bonds
- Stay away from lower quality bonds as the yield pick-up does not offset the much higher risk
- Municipals still offer attractive taxable equivalent yields
- Credit-oriented bonds should still do well despite rising rates

*SilverOak Updates
And “New Year”
Planning Tips*

SilverOak Updates

- **Continuing to make conversions to lower-cost mutual fund share classes as they become available**
 - **In the process of rebalancing client portfolios**
-
-

“New Year” Planning Tips

- **Do not adjust perceived changes in risk tolerance solely based on recent market performance**
- **Remember April 17th tax filing deadline**
 - Make sure you have your tax information compiled
 - 1099s, charitable contributions, etc.
 - Get this information to your tax preparer
- **Foreign bank account reporting**
 - Two reporting requirements
 - Form 8938 (due with income tax return)
 - FBAR (due with income tax return – no longer due 6/30)
- **Now is a great time to start tax planning for 2018**
 - Adjust withholding and/or estimated tax payments
 - Create a good filing system for the year
 - Keep receipts for charitable donations above \$250

“New Year” Planning Tips

- **Review your 401(k) statement**
 - If not maxing out contributions, consider increasing
 - contribution rate (annual limit = \$18,500)
 - Rebalance investments
- **If you turn 50 in 2018, remember to increase your 401(k) contribution**
 - \$6,000 “catch-up” to a total of \$24,500
- **Make an IRA contribution for 2017 and/or 2018**
 - \$5,500 annual limit
 - \$1,000 “catch-up” contribution for age 50 and over
- **Consider a “Back Door” Roth IRA, if applicable**
- **Utilize HSAs for long-term investments**

“New Year” Planning Tips

- **Review 2017 spending**
- **Review Social Security statement online**
- **Review your estate documents**
- **Confirm beneficiary designations**
- **Rebalance other investment accounts**
- **Ensure you have proper insurance coverage**
 - Life, disability, auto, property and umbrella
- **If it’s been awhile, get a copy of your credit report**
 - www.annualcreditreport.com or 877-322-8228
- **Consider freezing your credit with all three credit bureaus**

New Tax Law Update

The Tax Cuts & Jobs Act

- **Signed into law December 22, 2017**

- **Individuals:**
 - Effective for tax years beginning after December 31, 2017 and before January 1, 2026.
 - *Individual tax cuts sunset 12/31/2025!*

- **Corporations:**
 - Effective for tax years beginning after December 31, 2017
 - *Permanent tax cuts*

What We'll Cover Today

- **Individual Tax**
 - Tax Rates
 - Deductions
 - Credits
 - 529 Accounts
- **Estate & Gift Tax**
- **Corporate Tax Rates**
- **Pass-Through Entity Deduction**
 - (S-Corp, LLC, Partnership, Sole Proprietorship)

Individual Tax Rates (1/1/18 – 12/31/25)

TAX BRACKETS FOR MARRIED TAXPAYERS FILING JOINTLY

CURRENT LAW		FINAL PLAN	
10%	\$0 – \$18,650	10%	\$0 – \$19,050
15%	\$18,651 – \$75,900	12%	\$19,051 – \$77,400
25%	\$75,901 – \$153,100	22%	\$77,401 – \$165,000
28%	\$153,101 – \$233,350	24%	\$165,001 – \$315,000
33%	\$233,351 – \$416,700	32%	\$315,001 – \$400,000
35%	\$416,701 – \$470,700	35%	\$400,001 – \$600,000
39.6%	\$470,701 or more	37.0%	\$600,000 or more
Standard deduction:	\$12,700	Standard deduction:	\$24,000
Personal exemption:	\$8,100	Personal exemption:	Eliminated

BUSINESS INSIDER

Individual Tax Rates (1/1/18 – 12/31/25)

- **Alternative Minimum Tax (AMT)**
 - Retained in Tax Cuts & Job Act
 - AMT exemption increased
 - Married Filing Joint
 - *\$109,400 (2018) versus \$86,200 (2017)*
 - Single
 - *\$70,300 (2018) versus \$55,400 (2017)*
 - Phase out of AMT exemption amount
 - Married Filing Joint
 - *Begins at \$1.0 million (2018) versus \$164,100 (2017)*
 - Single
 - *Begins at \$500,000 (2018) versus \$123,100 (2017)*

Individual Tax Rates (1/1/18 – 12/31/25)

- **Net Investment Income Tax**
 - 3.8% investment tax retained
 - Tax on net investment earnings including interest, dividends and capital gains

- **Additional Medicare Tax**
 - 0.9% additional Medicare tax retained

- **Long-Term Capital Gains & Qualified Dividends Rates**
 - Preferential tax rates of 0%, 15% and 20% retained

Exemption & Standard Deduction (1/1/18 – 12/31/25)

- **Personal Exemption**
 - \$4,050 personal exemption is eliminated

- **Standard Deduction**
 - Married Filing Joint
 - *\$24,000 (2018) versus \$13,000 (2017)*
 - Single
 - *\$12,000 (2018) versus \$6,500 (2017)*

Itemized Deductions (1/1/18 – 12/31/25)

- **State & Local Taxes**

- Previous tax law, the deduction was unlimited

- *Unless subject to Alternative Minimum Tax (AMT)*

- **New 2018 Tax Law**

- *State, local & real estate taxes are limited to a combined total of \$10,000 year!*

Itemized Deductions (1/1/18 – 12/31/25)

- **Interest on Mortgage & Home Equity Debt**
 - Previous tax law provided for an interest deduction on:
 - *Mortgage debt up to an aggregate \$1.0 million*
 - *Home equity debt up to an aggregate \$100,000*
 - *Eligible for primary residence & vacation home*

Itemized Deductions (1/1/18 – 12/31/25)

- **Interest on Mortgage & Home Equity Debt**

- **New Tax Law** provides for an interest deduction:

- *For mortgages entered after 12/15/17*

- *Mortgage debt is limited to an aggregate \$750,000*

- *Interest on home equity debt is eliminated*

- *Eligible for primary residence & vacation home*

- *For mortgages entered on or before 12/15/17*

- *New lower aggregate mortgage debt does not apply!*

- *Interest on existing home equity debt is eliminated*

Itemized Deductions (1/1/18 – 12/31/25)

	“Old” 2017 law	“New” 2018 law
Charitable Contribution Deduction	Donate up to 50% of adjusted gross income to public charities	Donate up to 60% of adjusted gross income to public charities
<ul style="list-style-type: none"> <i>Deduction for College Athletic Seating Rights</i> 	<i>80% = charitable deduction</i>	<i>Not deductible</i>
Medical Expenses	Deductible if exceeds 10% of Adjusted Gross Income (AGI) (7.5% for 65 years of age or older)	Deductible if exceeds 7.5% of AGI for everyone. Applies to tax years <u>2017 & 2018 only!</u>
Miscellaneous itemized deductions	Deductible if exceeded 2% of Adjusted gross income	Deduction is eliminated <ul style="list-style-type: none"> <i>Tax prep fees</i> <i>Investment advisory fees</i> <i>Legal fees for tax advice</i>

Itemized Deductions Expected in 2018

- **Taxes**
 - State and local income taxes plus real estate taxes up to \$10,000
- **Mortgage Interest**
 - Outstanding mortgage indebtedness up to maximum:
 - *\$750,000, if incurred after 12/15/17*
 - *\$1.0 million, if incurred prior to 12/15/17*
- **Charitable Contributions**
- **Most taxpayers will claim the standard deduction of \$24,000 (MFJ) & \$12,000 (Single).**

What can you do to leverage new tax law?

- Consider Bunching Deductions to create additional tax deductions

	<i>Normal Charitable Contributions</i>			<i>Bunching Charitable Contributions</i>		
	<u>2018</u>	<u>2019</u>	<u>Total Deductions</u>	<u>2018</u>	<u>2019</u>	<u>Total Deductions</u>
State & Local Tax Deduction	\$ 10,000	\$ 10,000		\$ 10,000	\$ 10,000	
Mortgage Interest	\$ -	\$ -		\$ -	-	
Charitable Contributions	\$ 15,000	\$ 15,000		\$ 30,000	\$ -	
Total Itemized Deductions	\$ 25,000	\$ 25,000		\$ 40,000	\$ 10,000	
Standard Deduction	\$ 24,000	\$ 24,000		\$ 24,000	\$ 24,000	
Greater of Itemized Deduction or Standard Deduction	\$ 25,000	\$ 25,000	\$ 50,000	\$ 40,000	\$ 24,000	\$ 64,000

What Can You Do to Leverage New Tax Law?

▪ Qualified Charitable Distribution

- Donate Required Minimum Distribution (RMD) directly to a charity
- Benefits:
 - *RMD is NOT reported in taxable income*
 - *Creates a tax benefit for charitable contributions for those that don't itemize*
 - *Medicare premiums may be lower*
- Requirements:
 - *Must be 70 ½ years of age*
 - *Donation limited to \$100,000 per year*
 - *Must be made from an IRA account, not 401(k)*
 - *Distribution must be a direct transfer from IRA to the charitable organization*
 - ✓ *Contribution can't be to a donor advised fund!*

Individual Tax Credits (1/1/18 – 12/31/25)

- **Child Credit (Refundable)**

- *Increased credit for children under age 17*

- *\$2,000 (2018) versus \$1,000 (2017)*

- *Credit phase-out begins at AGI of:*

- ✓ *MFJ - \$400,000 (2018) versus \$110,000 (2017)*

- ✓ *Single - \$200,000 (2018) versus \$75,000 (2017)*

- *\$1,400 per child is refundable beginning 2018*

Individual Tax Credits (1/1/18 – 12/31/25)

- **Non-Child Dependent Credit (Nonrefundable)**
 - *New non-refundable credit for your children over age 16 and other dependents*
 - *\$500 per dependent*
 - *Credit phase-out begins:*
 - ✓ *MFJ - \$400,000 (2018) versus \$110,000 (2017)*
 - ✓ *Single - \$200,000 (2018) versus \$75,000 (2017)*

Other Individual Provisions (1/1/18 – 12/31/25)

- **Alimony**

- Previous tax law

- *Tax deduction for payor spouse*
- *Taxable income to recipient spouse*

- **New 2018 Tax Law**

- *No tax deduction for payor spouse*
- *Not considered taxable income to recipient spouse*
- *Applicable to divorce and separation agreements entered after 12/31/2018*

Tax Deferred Accounts

- **529 Accounts**

- Previous Tax Law

- *Tax free distributions if used for “qualified higher education expenses” (college tuition, fees, books, supplies, reasonable room and board)*

- **New 2018 Tax Law**

- *Tax free distributions for tuition paid for elementary or secondary public, private or religious education up to \$10,000 per student per year*

Estate & Gift (1/1/18 – 12/31/25)

- **Annual Gift Tax Exclusion**
 - Increased to \$15,000 in 2018

- **Federal Gift & Estate Exemption Doubles**
 - Married ~ \$22 million (2018) vs \$11.2 million (2017)
 - Single ~ \$11 million (2018) vs \$5.6 million (2017)

- **Minnesota Estate & Gift Tax Exemption**
 - Unchanged by Federal Act \$2.4 million (2018); \$2.7 million (2019); \$3.0 million (2020)

Estate & Gift (1/1/18 – 12/31/25)

- **What should you do given estate & gift tax changes?**
 - Review the terms of wills & revocable trust documents
 - *Formula tied to federal estate tax exemption*
 - Opportunity to revisit estate planning decisions
 - Consider additional gifts to individuals or trusts

Reminder

- Reverts back to \$5.0 million (inflation adjusted) in 2026

Corporate Taxes

	“Old” 2017 law	“New” 2018 law
Corporate Tax Rates	15% (\$0-\$50,000) 25% (\$50,001-\$75,000) 34% (\$75,001-\$10,000,000) 35% (\$10,000,001+)	Flat 21% rate
Alternative Minimum Tax	20% with exemption \$40,000 (if gross receipts > \$7.5 million)	Repealed

Qualified Business Income Deduction (1/1/18 – 12/31/25)

- Deduction applicable to all pass through entities
 - *Individual taxpayer can deduct 20% of qualified business income (QBI) generated in the U.S. by a partnership, S-corporation, limited liability companies or sole proprietorship if*
 - *Taxable income threshold amount is less than:*
 - ✓ *Married filing joint - \$315,000*
 - ✓ *Single - \$157,500*

Qualified Business Income Deduction (1/1/18 – 12/31/25)

- **Other limitations for individuals with income in excess of threshold amounts \$315,000 (MFJ) & \$157,500 (Single) that are not “*Specified Service business*”**

- *QBI deduction (20% of qualified business income) is further limited to the greater of:*

- *50% of your allocable share of W-2 wages paid by the qualified business*
- *The sum of 25% of your allocable share of W-2 wages paid by the qualified business plus 2.5% of the unadjusted basis of depreciable tangible property (i.e. cost)*

Qualified Business Income Deduction (1/1/18 – 12/31/25)

–*Specified Service business*

- *Any business involved in the performance of services including medicine, law, accounting, actuarial science, financial services, consulting, athletics, or any trade or business that relies on the “reputation and skill of one or more employees”*
- ✓ *Except engineering and architectural*

Qualified Business Income Deduction (1/1/18 – 12/31/25)

- Limitation for “Specified Service Business” with income between:
 - *MFJ - \$315,000 to \$415,000*
 - *Single - \$157,500 to \$207,500*
- *QBI deduction (20% of qualified business income) is phased out on a pro-rata basis and further limited by the greater of:*
 - *50% of your allocable share of W-2 wages paid by the qualified business adjusted proportionally as income increases*
 - *The sum of 25% of your allocable share of W-2 wages paid by the qualified business plus 2.5% of the unadjusted basis of depreciable tangible property (i.e. cost) adjusted proportionally as income increases*

Qualified Business Income Deduction (1/1/18 – 12/31/25)

- Other Limitations for individuals above “*taxable income*” thresholds of \$415,000 (MFJ) & \$207,500 (single) that are a Specified Service Business
 - *Disqualified and receive no deduction!*

Qualified Business Income Deduction (1/1/18 – 12/31/25)

- *QBI deduction reduces income subject to federal income tax*
- *QBI deduction does NOT reduce self employment taxes or alternative minimum tax!*

Questions?

End of Quarterly Webinar

Please contact your SilverOak Advisor
to discuss any questions and/or concerns.

If you are not currently working with SilverOak, feel free
to contact us at 952-896-5701 to learn more about our services.

www.silveroakwealth.com