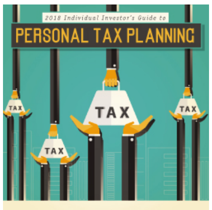
December AAII Journal Update

The December 2018 *AAII Journal* is Now Available Online.

COVER ARTICLE

The Individual Investor's Guide to Personal Tax Planning 2018



in Features, Special Features, Tax Strategies

By AAII Staff

Our annual tax and financial planning guide is designed to help you assess your current tax situation given the new tax law and plan for any changes that may improve your tax liability both this year and next.

IN THIS ISSUE

19 Year-End Financial and Investing Moves

in Financial Planning

By Charles Rotblut, CFA

Actionable steps covering personal finance, estate planning, investing, retirement and taxes that investors should consider taking now.

DEPARTMENTS

Briefly Noted

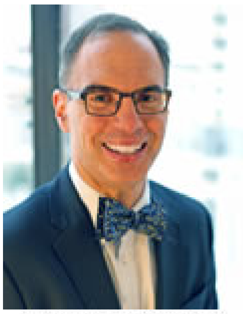
Current news items of interest to individual investors.

- Consistent 401(k) Participants Have Larger Savings
- Delaying Retirement Has a Small Impact on Men's Longevity
- The SEC Wants to Hear From Individual Investors
- Savings Medicare Beneficiaries May Need for Health Care

Letters to the Editor

Members discuss cap-weighting versus equal-weighting in regard to the Level3 Passive Portfolio, and comment on spending rules in retirement.

EDITOR'S NOTE



Charles Rotblut, CFA
AAII Journal Editor

The forthcoming tax season will be the first to reflect the impact of the Tax Cuts and Jobs Act (TCJA). How the law will affect you personally depends on a variety of factors, including your income, the size of your family and the complexity of your finances. Even seemingly routine things such as paycheck withholdings may result in you receiving a larger-than-expected refund or having to unexpectedly write a check.

The impact of the law reaches well beyond individuals. Corporations have been affected too. Net earnings this year have been boosted by the reduced tax rates. At the same time, profits earned overseas are finding their way back to the U.S. The Tax Foundation estimates that more earnings were repatriated during the first six months of 2018 than in 2015, 2016 and 2017 combined.

Some of the cash from these profits have gone toward share repurchases. Last month, S&P Capital IQ's senior index analyst Howard Silverblatt declared in a tweet, "We have a new [S&P 500] quarterly buyback record, and there are still unreported issues … could put us at the $200B quarterly mark." As Silverblatt pointed out, this is equivalent to the market capitalizations of Boeing Co. (BA), Cisco Systems Inc. (CSCO) and Merck & Co. Inc. (MRK).

Proponents of the tax cut argued that the tax savings would be used to fund capital projects and grow wages. This has not universally happened. As investment firm Driehaus Capital tweeted last month, "Buybacks currently larger than [capital expenditures] in the S&P 500. Only seen one other sustained period like that in last 20 years." October average hourly wages rose 3.1% on a year-over-year basis, not significantly higher than the consumer price index's 2.5% increase.

A Gallup poll released last month found many Americans not noticing their wallets benefiting from the tax cuts. According to the polling firm, "51% of Americans say the law has not helped their family's financial situation, while 38% say it has helped 'a little' (26%) or 'a lot' (12%)." Unsurprisingly, given the highly politicized environment, Republicans were more likely to say the tax cuts have helped them a lot than Democrats (24% versus 3%).

This isn't to say the tax cuts haven't had any effect. The economy does appear to have received a boost. The ongoing trade war and threat of tariffs have been a headwind, however, making it hard to know what the ongoing rate of growth would be without them.

Then there is the federal deficit. The U.S. government ended its 2018 fiscal year with a deficit of $779 billion. This was a $113 billion increase from fiscal 2017. Economic growth resulting from the TCJA has so far not been strong enough to boost aggregate revenue from taxes. Data from the Treasury Department shows tax receipts for the first 10 months of 2018 are up just a scant 0.1% over the same period in 2017.

The rising deficit is a symptom of a far greater problem: the lack of a long-term agreement for addressing the U.S.' projectable spending needs and national debt. Health care, infrastructure, defense, energy, climate change and Social Security are among the known long-term issues requiring non-partisan solutions. Just as the Affordable Care Act didn't solve the problems of rising out-of-pocket health care costs that many Americans face, the TCJA did not address the spending side of the ledger. What America needs is for politicians on both sides of the aisle to step away from ideology and develop comprehensive long-term solutions.

As far as your individual taxes are concerned, it is prudent to start working on your 2018 returns sooner rather than later given all the changes caused by the TCJA. The combination of the $10,000 cap on state and local taxes, potentially incorrect paycheck withholdings and the suspension of the personal exemption could cause your tax bill to be different than last year. Our tax guide, which starts here, contains much of the data you will need to estimate your 2018 and 2019 taxes. You may also find my suggestions for year-end financial moves here to be helpful.

Wishing you a happy holiday season and a healthy and prosperous New Year,

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