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NEWSLETTER

The Advisor

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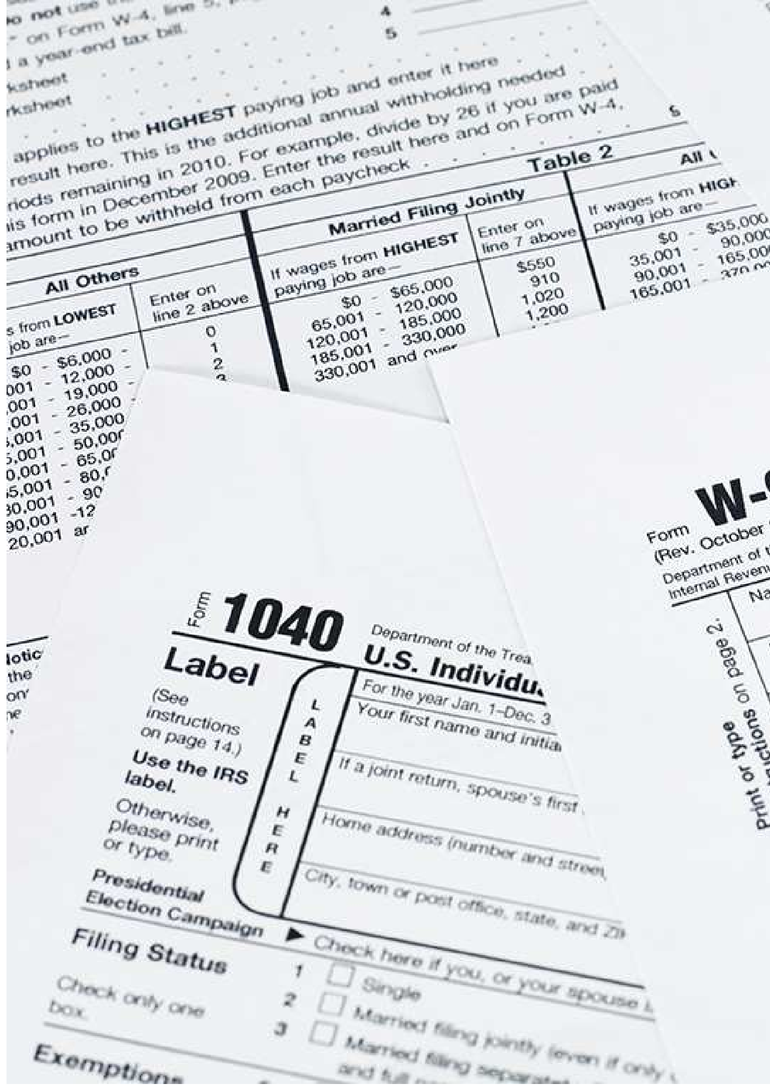


THE TAX CUTS AND JOBS ACT OF 2017

The legislative triumph of the end of 2017 was the passage of a tax reform bill, known as the Tax Cuts and Jobs Act, that will reduce the tax burden on millions of Americans. The legislation was a campaign promise of the president and is part of an economic stimulus agenda that includes repatronizing billions of dollars of the funds of international corporations held overseas, renegotiating trade deals and bringing more jobs back to America.

The thinking is simple; the middle class makes up the largest consumer and taxpayer segment of the American economy. Putting more dollars in the wallets and purses of those American's can stimulate spending and economic growth. Reducing regulatory burdens on big business, along with lowering tax rates, can lead to more job creation and higher wages. Some of this had begun to happen at the end of 2017 with many companies dolling out year-end bonuses.

The legislation had its detractors, because of components of the original proposed bill, but eventually, enough Republicans got on board to get passage. Two hundred and one House Democrats and 12 Republicans voted against it.

New Tax Law; Several Changes

What will the new law mean for taxpayers? There are many features that will change and simplify filing taxes along with lower withholding for most taxpayers. The Tax Cuts and Jobs Act will have the effect of increasing the after-tax incomes of taxpayers in nearly every taxpayer group this year. Although those increases are marginal, they mean that taxpayers are paying less of their income in taxes.

Prior to passage of the GOP tax plan, there were seven tax brackets; 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, 35 percent and 39.6 percent. Under the new law, those seven tax brackets change to 10, 12, 22, 24, 32, 35 and 37 percent.

The new law will also increase the standard deduction for single filers to $12,000, for heads of households to $18,000, and joint filers will be able to deduct $24,000. It also expands the child tax credit to $2,000 from $1,000. It eliminates the personal exemption.

Another change is the cap of $10,000 on the deduction for state income and local property taxes. Some high-tax states are considering clever work-arounds to circumvent the new limit.

The IRS is still working to implement new withholding tables with changes in payroll withholding occurring in February.

Most of these changes are temporary though and expire on December 31, 2025, except for the corporate tax cuts, which are permanent. While the new law does add to the deficit, assuming all economic conditions remain the same; the hope is that there is enough economic stimulus to bring about overall improvement.

For the 80+ percent of Americans who will realize some tax relief, it is better than the alternative; gouging more hard-earned money to pay Uncle Sam.

2017 WAS A BETTER YEAR FOR INTERNATIONAL STOCKS

It wasn't that long ago that the U.S. stock market was being impacted by problems in Europe. Greece, Portugal and Spain were having big problems with their credit ratings and national debt, along with the cost of entitlements, creating problems that their governments couldn't handle. It took massive bailouts, from more prosperous countries within the European Union, to keep the troubled countries above water.

Although those countries are still recovering, international stocks still had a very good year in 2017 thanks to emerging market countries.

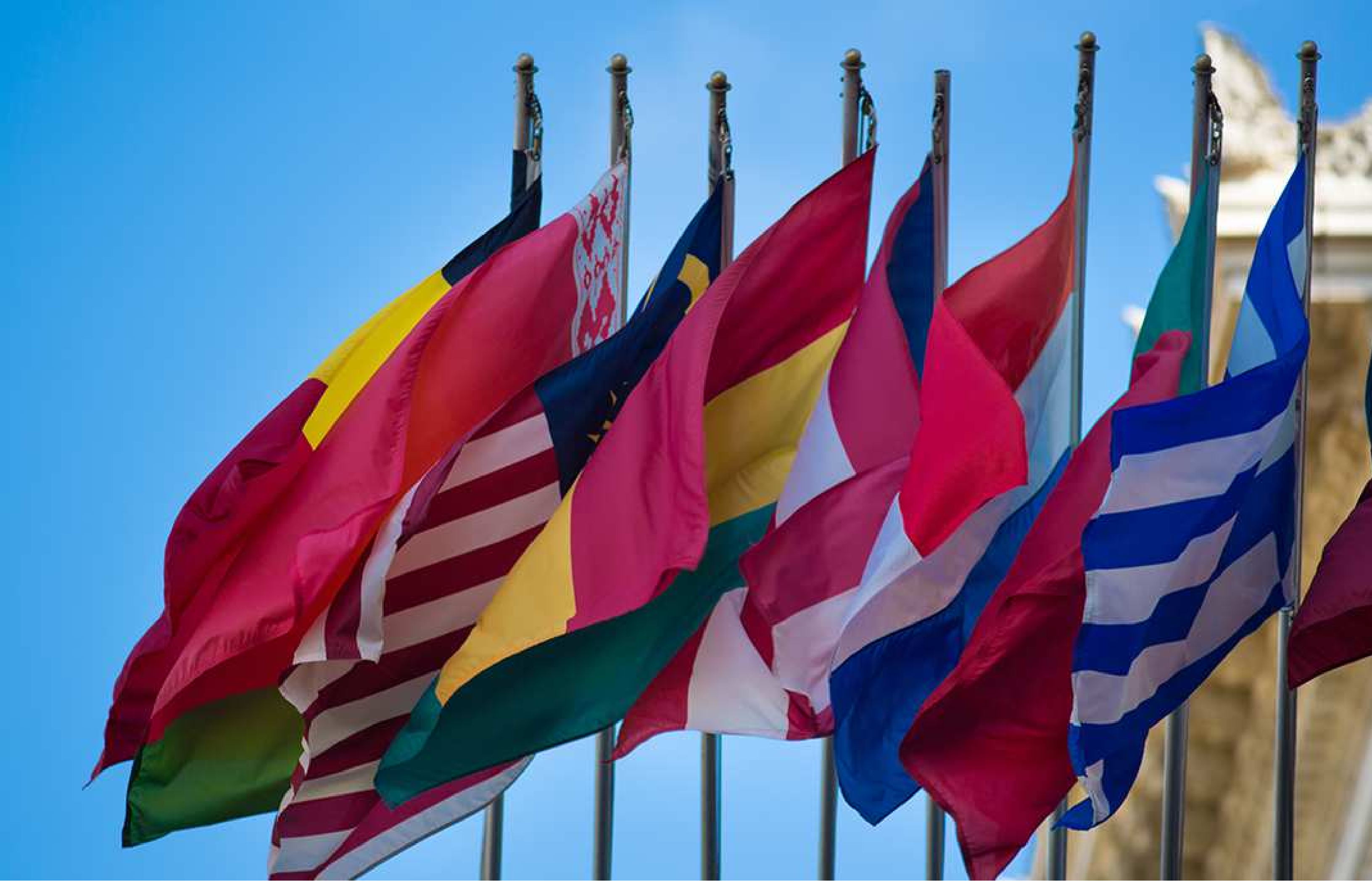
But, it wasn't necessarily big gains by stocks in those developed markets, like Spain and Portugal, that helped boost the overall results. It was manufacturing production in China and high tech and car production in South Korea that topped off the years international equity results. Combined with a lower cost to borrow money, and a weaker dollar, many emerging markets had a much-improved year.
Emerging Markets Rung Up Big Gains

Emerging Markets had a great 2017 and that was reflected in their stock market results and tracked by the MSCI Emerging Markets Index. Hong Kong's stock market had its biggest point gain during 2017 in its history. The stock markets in both South Korea and India also saw their best year in eight years. Japan's Nikkei saw its best year in four years, rising 19 percent. Many emerging markets benefited by their exposure to technology and rising demand.

The MSCI Emerging Markets index includes countries like China, India, Korea and Taiwan among it's Asia component and the Czech Republic, Poland, South Africa, Russia and Turkey, among its Europe, Middle East and Africa grouping.

The same organization that includes these counties in its emerging markets indexes incorporates the U.S., Canada, France, Germany, the U.K. and Italy within its developed markets indexes.

Stocks tracked by the MSCI ACWI (excluding U.S. companies) Index was up 24 percent at the end of 2017.



This index includes both developed markets and emerging markets. The only economy that experienced some tempered optimism was the U.K., where there is some uncertainty about an exit from the E.U. Compare this to the performance of the S&P 500 , which was up 19.4 percent for the year, its best gain since 2013.

The U.S. dollar has taken losses against other currencies, which has aided in the gains of many of these markets outside the U.S. Another factor has been the high valuations on U.S. stocks compared with their international counterparts. This has led many investors to equities with more attractive valuations.

The Euro surged against the dollar during 2017 with the biggest rally in 14 years. The South Africa Rand has enjoyed a strong rally recently. Against a basket of currencies tracked by the WSJ Dollar Index, the U.S. dollar had its worst year going back to 2007.

The wild card for 2018 will be tax reform. While deregulation and the anticipation for lower corporate tax rates helped propel the domestic markets in the later half of 2017, it is yet to be seen what the real impact will be this year. Whether the U.S. or emerging markets wins that race is anyone’s guess at this point.

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About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.