



Daniel Steinberg, Partner

# STEINBERGANNA Solutions

STEINBERGANNA Wealth Management Corp.

STEINBERGANNA

Wealth Management

76 New York Avenue, Suite 2 • Huntington, NY 11743

(631) 271-6160 • Toll Free (888) 886-2662

dsteinberg@americanportfolios.com • kcanna@americanportfolios.com

WWW.STEINBERGANNA.COM



K.C. Anna, Partner



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## Dealing with Divorce

Retirement plan benefits are often among the most valuable marital assets. So in the event of a divorce, tax-deferred retirement assets are typically divided, just like houses, cars, and bank accounts. Paying close attention to IRS rules and correct procedures may help account owners avoid unintended tax consequences.

## Tariff Troubles

The Federal Reserve's Beige Book is a synopsis of the conditions and challenges facing U.S. businesses in the central bank's 12 regional districts. In the 32-page report released in April 2018, the word "tariff" or "tariffs" appeared 36 times. Tariffs have been referenced a total of 20 times since 1996, and never more than twice in the same report.

Source: Reuters, April 18, 2018

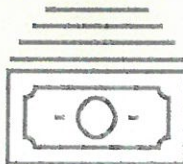
## Corporate Spending Spree?

An analysis of first-quarter 2018 earnings reports of 130 S&P 500 companies suggests that they were focused on using their tax windfalls to generate future growth.

Source: Bloomberg.com, April 26, 2018

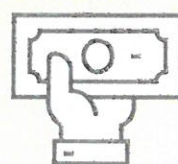
Increase from previous quarter

39%



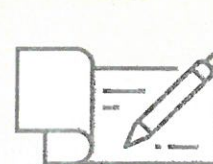
Capital spending

16%



Net buybacks

11%



Dividends



# Dealing with Divorce

## Dividing Assets Can Impact Retirement

While we all hope our marriages will last forever, about 50% of first marriages in the United States end in divorce.<sup>1</sup> And unfortunately, a couple who decide to divorce must typically negotiate a property settlement agreement (or seek the assistance of the courts).

Retirement assets can be divided at the time of a divorce, just like houses, cars, and bank accounts. The laws of your particular state will define which retirement benefits are marital assets (or community property in community property states) that are subject to division.

Retirement plan benefits are often among the most valuable marital assets. You and your spouse may have one or more IRAs held by various financial institutions. One or both of you may also be entitled to retirement benefits from past and current employers.

### Trading Marital Assets

In some cases, one spouse may agree to waive any rights to all or some of the other spouse's retirement benefits in exchange for other marital assets (for example, the home). With 401(k) plans or IRAs where the value is clear, trading the account balance for other marital assets is generally straightforward.

On the other hand, trading pension benefits should be done only if you're certain that the present value of those future payments has been accurately

determined. Before you give up a valuable lifetime income, make sure you'll have other adequate resources available to you in retirement.

### Employer Plan Rules

When splitting qualified retirement plan assets, such as a 401(k), a qualified domestic relations order, or QDRO, must be provided to the plan administrator. A QDRO is a court judgment, decree, or order establishing the marital property rights of a spouse, former spouse, child, or dependent of a plan participant.

Pursuant to a QDRO, you could be awarded all or part of your spouse's pension plan benefit or 401(k) account balance as of a certain date. Be sure to consult an attorney who has experience in negotiating and drafting QDROs, especially if the QDRO may need to address complex issues such as survivor benefits, benefits earned after the divorce, plan subsidies, and COLAs, among others. (For example, a QDRO may provide that you'll be treated as the surviving spouse, even if your spouse subsequently remarries.)

You are responsible for any taxes on benefits awarded to you pursuant to a QDRO (although the 10% penalty for early distributions before age 59½ will not apply). You may be able to roll certain distributions into your IRA to defer current taxes.

### IRAs Are Different

Dividing assets in IRAs or nonqualified plans does not require a QDRO. However, a divorce decree may be needed to avoid the negative tax consequences of IRA distributions resulting from divorce. Under federal rules, owners of traditional IRAs must pay ordinary income tax on any distributions. However, if the IRA assets are transferred to the former spouse's IRA in accordance with a divorce decree, then the IRA owner will not be responsible for any taxes on the distribution. Instead, the recipient spouse must pay any taxes due when payments are received from the IRA.

### Social Security Benefits

If you were married for at least 10 years to an eligible worker and are currently unmarried, you may be able to collect benefits based on your former spouse's work record. This won't affect the benefits that your former spouse receives, even if he or she has remarried.

You can claim spousal benefits when your former spouse reaches the eligibility age for Social Security (if you have been divorced for at least two years), regardless of whether your former spouse is actually receiving benefits or has filed for them. But doing so before *you* reach full retirement age will result in a reduced benefit amount.

1) National Survey of Family Growth, Centers for Disease Control and Prevention, 2017

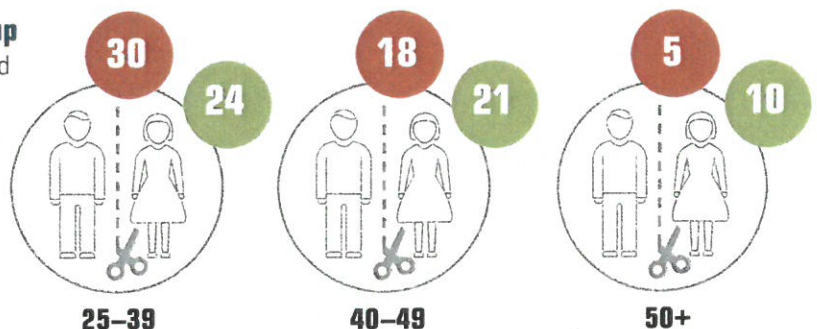
### "Gray" Divorces on the Upswing

Individuals age 50 and older are still less likely to get divorced than those who are younger. However, while the divorce rate for Americans under age 40 has declined since 1990, it has roughly doubled for those age 50 and older.

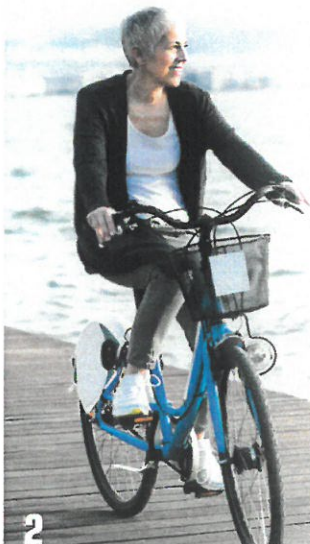
#### Divorce rates by age group

Number of people who divorced per 1,000 married persons in the year prior to the survey

● 1990 ● 2015



Source: Pew Research Center, 2017





# College Savings

## How Does a Roth IRA Compare to a 529 Plan?

Roth IRAs were primarily intended as a tax-advantaged way to save for retirement, but for some parents (and even students with earned income), a Roth IRA can double as a college savings tool. On the other hand, state-based 529 savings plans were designed specifically to help families set aside money for future education costs.

Roth IRAs and 529 plans are both funded with after-tax dollars, contributions accumulate tax deferred, and qualified distributions are tax-free. Still, there are a number of key distinctions to keep in mind.

### Eligibility and Contribution Limits

In 2018, the maximum IRA contribution for someone under age 50 is \$5,500 (\$6,500 for those 50 and older). Roth IRA eligibility limits phase out for single filers with incomes between \$120,000 and \$135,000.

Anyone can contribute to a 529 plan; there are no restrictions based on income. Another significant advantage is that lifetime contribution limits are high, typically \$300,000 and up (gift tax rules may apply). Each plan has its own rules and restrictions, which can change at any time.

### Use of Funds

In order for a 529 plan distribution to be tax-free, the funds must be used for qualified higher-education expenses or K-12 tuition. Otherwise, the earnings portion of the distribution is subject to income tax *and* a 10% federal tax penalty.

A *qualified* Roth distribution can be used for anything — retirement, college, travel, home remodeling, and so on. If college costs are less than you expected, you can put those Roth dollars toward something else.

### Roth Distributions: Qualified or Not

If you will be 59½ or older when your child is in college (and you've met the five-year Roth holding requirement), your distribution will be qualified, and you can use your Roth dollars to pay for college with no tax implications or penalties.

If you'll be younger than 59½ when your child is in college, you can still use Roth dollars, but your distribution will not be qualified. This means the earnings portion of your distribution will be subject to income tax. Nonqualified distributions from a Roth IRA draw out contributions first and then earnings, so you could theoretically withdraw up to the amount of your contributions and not owe income tax. Also, if Roth dollars are used to pay for college, the 10% early-withdrawal penalty that normally applies to distributions before age 59½ is waived.

### Financial Aid Treatment

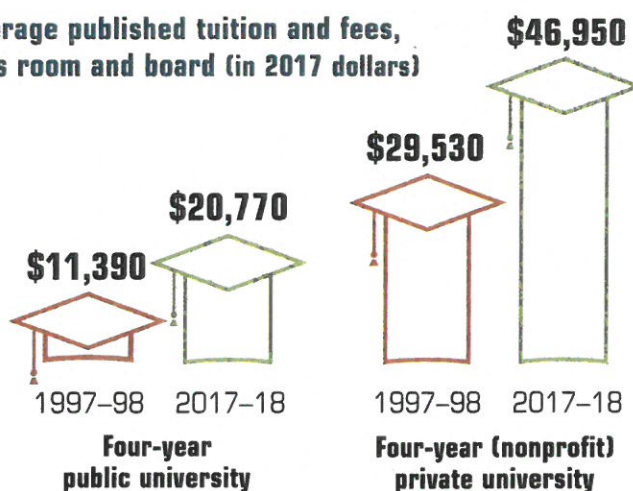
At college time, retirement assets aren't counted by the federal or college financial aid formulas, so Roth IRA account



### Climbing College Costs

A college education is a significant financial burden that is increasingly hard for students and their parents to bear.

**Average published tuition and fees, plus room and board (in 2017 dollars)**



Source: College Board, 2017

balances will not affect your student's financial aid. By contrast, parent-owned 529 plans do count as an asset under both federal and college aid formulas.

### Investment Choices

With a Roth IRA, your investment choices are virtually unlimited — you can hold mutual funds, exchange-traded funds, individual stocks, and bonds, to name a few.

With a 529 plan, you are limited to the investment options offered by the plan, which are typically a range of static and age-based mutual fund portfolios that vary in their level of risk. You can change the investment options for your existing contributions only twice per calendar year.

*Investors should carefully consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. Specific information is available in each plan's official statement. Keep in mind that there is the risk that 529 plan investments may not perform well enough to cover costs as anticipated. Also consider whether your state offers any 529 plan state tax benefits and whether they are contingent on joining your own state's 529 plan. These other state benefits may include financial aid, scholarship funds, and protection from creditors.*



# Key Tax Breaks for Business Owners

The Tax Cuts and Jobs Act has made the tax code more favorable for small businesses. Still, owners will want to take full advantage of every legal tax break they can find.

The following deductible business costs could help reduce your 2018 tax bill. Be sure to consult with your tax professional before you take any specific action.

## Home Office Deduction

Business owners who operate out of a qualifying home office have two available claiming options, either of which could result in a larger deduction. Whichever option the taxpayer chooses, the eligibility criteria are the same. To qualify for a deduction, a home office must be used in a trade or business — not to manage personal investments or pursue a hobby. It must also be used regularly and exclusively for business.

Under the original method, eligible taxpayers can write off a percentage of home expenses such as depreciation, rent, property taxes, insurance, utilities, maintenance, and repairs. The percentage is based on the square footage of the office space relative to the total size of the home.

A newer, simplified option allows taxpayers to claim a flat \$5 per square foot of the office, up to 300 square feet. Thus, the deductible amount is capped at \$1,500.

This simple formula doesn't take home expenses into account, so it's easier to figure out and generally lightens the recordkeeping burden. However, business owners with relatively high home expenses may be able to claim more than \$1,500 for a home office if they use the more complex calculation method.

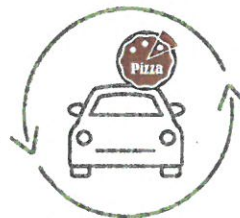
## Autos for Business Use

If your business relies on the use of one or more vehicles, it pays to consider the potential tax implications, such as

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## Upgrading the Fleet?

Maximum depreciation allowances for new and used vehicles acquired and placed in service in 2018



### Passenger cars, SUVs, trucks, and vans under 6,000 pounds\*

<b>2018</b> .....	\$10,000
(\$18,000 in 2018 if 100% first-year bonus depreciation is claimed)	
<b>2019</b> .....	\$16,000
<b>2020</b> .....	\$9,600
<b>2021+</b> until fully depreciated .....	\$5,760

\*100% first-year bonus depreciation is allowed for heavy SUVs, pickups, and vans with a gross vehicle weight above 6,000 pounds, to the extent they are used more than 50% for business.

Source: Internal Revenue Service, 2018

whether to take the mileage deduction, lease versus buy, and depreciation.

Small businesses can take a deduction for auto expenses based on the number of miles traveled using the standard mileage rate (54.5¢ per business mile for 2018) plus parking and tolls. An alternative method involves adding up the actual costs, including lease payments or vehicle depreciation, car maintenance, and gas, for vehicles used at least 50% for business purposes.

In 2018, the first-year depreciation deduction for “luxury” vehicles has become significantly more generous thanks to the Tax Cuts and Jobs Act.

The IRS generally expects taxpayers who claim vehicle deductions to keep a log that tracks the date, destination, purpose, and odometer readings for each business trip.

*Balancing multiple financial goals is often a fact of life. We can help you prepare for the future you envision.*

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