CAMMACK RETIREMENT

The Implication of Tax Reform on Retirement Investing

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With the new tax bill signed into law and effective as of January 1, 2018, there are several provisions that may affect investors and investments in retirement plans. For months, fears centered on the potential "Rothification" of defined contribution plans. However, the favorable tax treatments of these plans, as well as health savings accounts (HSAs), were maintained. Additionally, 529 plans are now more flexible; funds may be used for K-12, college, and post-graduate study. While this is not a retirement benefit, it helps with potential wealth accumulation and financial planning.

In anticipation of the tax reform bill and the potential benefits for corporations and earnings, the stock market has appreciated over the past few months. Corporate tax rates were cut from 35% to 21% effective in 2018, with the exception of many pass-through businesses and sole proprietorships, which will be taxed at the individual tax rate, less the deduction of 20% of income. Corporations will have a limitation on the deduction for interest equal to 30% of the adjusted taxable income. Lower taxes result in higher earnings, and stock prices follow earnings over the long term. Potentially, we may also anticipate increases in productivity, as corporations use the savings from lower taxes to reinvest in capital expenditures. Increased cash flow can be returned to shareholders via share repurchases or increases in the dividend payout. All results may eventually benefit the shareholder through price appreciation or higher income.

Analysts at investment management firms are factoring corporate tax reform into earnings estimates and are anticipating higher earnings growth in 2018. Lower corporate taxes, combined with a global synchronized economic recovery, could continue to propel the economy; the caveat being that strong growth can potentially increase inflation and interest rates.

Certain sectors of the economy are expected to benefit more than others from lower corporate tax rates. The consumer, financial, energy, and healthcare sectors generally pay the highest tax rates, and therefore, could be beneficiaries. The technology sector generally has the lowest effective tax rates and, therefore, the change may have less of an impact. Small capitalization companies with more of a domestic-orientation may also benefit. Since these companies are largely U.S.-centric, they generally pay a higher tax rate than their multi-national competitors.

The tax reform bill also put a $10,000 limit on the deductibility of State and Local Taxes (SALT). Retirement plan participants who reside in highly-taxed states will be most affected with the loss of this deduction. This makes contributing to defined contribution (DC) plans a great way to minimize taxes. Participants should look to maximize voluntary contributions to their DC plans not only to prepare for retirement, but also to take advantage of the tax deduction.

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For more information on our services, please contact **Mike Volo,** Senior Partner, at **781.997.1426** or **mvolo@cammackretirement.com**.

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