KEEN ON
RETIREMENT

What You Need to Know about the New Tax Bill

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski:	Hey everybody. Welcome to 2018 with Keen On Retirement. I'm your co-host Steve Sanduski and I'm here with Bill Keen and Matt Wilson. Gentlemen, welcome to the New Year.
Bill Keen:	Well, Happy New Year to you as well Steve. How's it going for you up there?
Steve Sanduski:	So far so good. We're coming out of the deep freeze here. I think a lot of the country was really cold here in December and now we're warming up a little bit here in January. So we're looking forward to a great 2018.
Bill Keen:	Matt, we weren't feeling too sorry for Steve up there in Milwaukee, were we? When it was a negative 10 here there a couple days.
Matt Wilson:	It was cold here. Steve, I remember you talking about lake effects snow and we actually had the experience of that here in Kansas City.
Steve Sanduski:	So, did you have like Missouri River affect snow or?
Bill Keen:	I didn't know this, I didn't now about this.
Matt Wilson:	Well, I guess technically it wasn't in Kansas City. Like in the Ozarks had lake effect snow.
Bill Keen:	Really?
Matt Wilson:	Yeah.
Bill Keen:	Oh, very nice.

I experienced it when I was visiting Steve and Linda. I experienced it there in Michigan.

Steve Sanduski: Well, it's interesting because of we're on the western shore of Lake Michigan and the prevailing winds are coming out of the West so it's not often that we get lake effect snow because the winds have to be coming from the northeast or from the east to actually get some lake effect snow. So it doesn't happen all that often but when it does it's kind of pretty.

Well hey, we are going to talk about one of the most exciting topics in all of finance. You know what that is?

Bill Keen: Oh my goodness. Well, I would say getting to spend the money we save but that was a prior episode so I think you might be kind of having some fun with it here, Steve.

Steve Sanduski: Well, spending is a close second to this topic.

Bill Keen: Oh my goodness, well, no I know you're kidding.

Steve Sanduski: Yeah. It's all about taxes an of course we've had some major changes to the tax law so we're going to have a little fun with it but we're also going to get serious and talk about how those changes may affect all of you listening. And yeah, so why don't you guys kick us off here. What all do we need to be talking about here as it relates to taxes?

Bill Keen: Well, you know, we talk about spending. It kind of goes hand in hand with taxes because we know that taxes are the number one thing that come out of our paychecks and hopefully, actually I should restate that, hopefully it's our savings that come out first then the taxes if we're doing it and taking advantage of what's available and then what we have left we do get to spend. You know it is good that we talk about this in the format that we have here today, call it 30 minutes or so, we're going to discuss the different pieces to it that people should be thinking about. Of course, most of what we're talking about doesn't apply to the tax year we just came out of, most of it. Some of it does but most of it applies to 2018 and beyond.

So I think we'll do a good job here. We'll probably come back to this again in 2018 but I thought it would be good to lay the framework today, didn't you Matt, for some of the main changes that have happened.

Now Steve, are you worried about an I.R.S. audit?

Steve Sanduski: Not particularly. Maybe I should be but ...

Bill Keen: Right. Well, you need to avoid what's called a red flag, if you're concerned about an I.R.S. audit. And I'll bet you're wondering what that red flag is.

Steve Sanduski: Bill, what is that red flag?

Bill Keen: So a red flag is something that the I.R.S. always looks for. Now here's an example that Jay Leno shared on his show not long ago. He said if you pay your taxes and then you have some money left in your bank account afterwards, that's considered a red flag.

Matt Wilson: Oh okay.

Bill Keen: I hope that's not actually true.

Steve Sanduski: Now is that before or after you take your savings out first from your paycheck.

Bill Keen: Well, hopefully Leno, Leno is probably saving a little bit of money. He's probably got some of those tax shelters that everybody talks about.

Steve Sanduski: I don't know, he's bought a whole bunch of fancy old cars, you know.

Bill Keen: That's right. Probably depreciating those in some form or something.

Steve Sanduski: And motorcycles too.

Bill Keen: You know the taxpayers are sending congressmen on expensive trips abroad, you know that's still happening, you know it. Will Rogers says it might be worth it, except they keep coming back darn it. My goodness.

Steve Sanduski: You're on a roll here Bill.

Bill Keen: Well, you know, I mean, you have to bring some brevity to these topics. I have one more for you we'll get into the meat of the subject. There's a new word that's going on out there and I think Wikipedia's picked it up. You know how we're inventing words it seems like more and more often these days. There's a new word called intaxification. You heard that word before?

Matt Wilson: No, no.

Bill Keen: Intaxification is the nice feeling that you get when you receive a tax refund, until you realize that it was all your own money in the first place.

Steve Sanduski: That's a good point though. If you get a tax refund you're essentially giving the government an interest free loan of your own money.

Bill Keen: That's right, and Matt, most of our clients get that, don't they?

Matt Wilson: Yeah, that's right.

Bill Keen: And we sit down in the meetings where we're talking about withholdings and how we want things to play out toward the end of the year. Nearly everybody we work with says, hey, I'd rather owe just a smidgen than getting money back because they get that concept. But I'll tell you Steve, I know as your kids have grown up and started to get jobs and mine as well, this whole tax thing's shocking to them, isn't it, when they get about two thirds of what they thought they were going to get on their paychecks.

Steve Sanduski: The government had spent some time here trying to hammer out a new tax bill and that got completed and signed by the president toward the end of December and now all those are going to take effect, some of those anyway are going to take effect here in 2018. So let's dig into some of the major changes that we can expect here in the years to come.

Matt Wilson: We've dug into as much as we can on the tax bill right now. We're still kind of analyzing all the minutia. Even though they called it a simplification there's a lot to it. But the biggest things are around the brackets. So those had a big overhaul. We also had some changes around some deductions and what those look like. And then we have some new rules around 529's and state and local income taxes so these are the things that are going to affect most retirees.

I guess we could kick it off kind of starting with the brackets, at what rate does our income get taxed at based on how much income we have.

Bill Keen: And Matt, they really just shaved a couple percentage points off most of the brackets, didn't they? I say two or three percent off most of the brackets.

Matt Wilson: That's right. They changed them, I mean, it was a slight change but it was considered, this new tax plan I think considered the biggest change in the last 35 years. So something that is, it doesn't come around that often. Off on a tangent here, I saw, a client forward me this, a Wall Street Journal article, it was kind of joking but it said, who's the most interesting person at your holiday parties this year, your tax accountant.

Bill Keen: Right. That's not always the cases, is it?

Matt Wilson: I don't think that's ever the case.

Bill Keen: No offense to tax accountants.

Matt Wilson: No. There's a little more interesting thing to talk about but this year there's a lot of tax information out there. So we do a lot of analysis around the brackets when we pull money out of IRA's or when we pull money out of taxable accounts, what impact does that have on our taxes.

When you look at the brackets, they start at, for a married couple, for a single couple, the first portion of your income is taxed at 10% and then the next portion is taxed at 12%.

Bill Keen: I know we're not looking at slides here and folks are listening to this on iTunes or their mobile devices but just to give you an idea, Matt, sorry to interrupt but I just thought, at least in these initial brackets, the way it works is the first $19,050 that a married couple makes will be taxed at 10%, and then from $19,050 up to $77,400, that portion, and only that portion is taxed at 12%. The first $19,050 is taxed at 10%. Now all the brackets then roll out and I won't belabor you with the actual numbers of the brackets but I just want to throw that in there, kind of how that works and give a little idea about the first couple brackets at least there.

Matt Wilson: And the next one, these bottom three are the ones that we do a lot of planning around where we see the most income for clients.

So the next bracket starts at 22%. The portion of income that applies to that bracket is 77,400 to 165,000 and that's for a married couple.

If we didn't adjust the marginal rates this year, the dollar brackets wouldn't have changed but the first 19,000 for a married couple still would have been at 10%. The next portion, 19,000 to 77,000 would have been at 15% and then from 77,400 to 165,000 would have been at 25%. So, that's where you can see the differences. It's roughly 3% on those second and third brackets.

I worked through a little example just comparing a married couple, if they had basically an adjusted gross income of about 98,000, their taxes in 2018 will be, their federal tax, the state tax didn't change much, their federal tax would be about $2000 less.

Bill Keen: Under the new?

Matt Wilson: The new law, that's right. And that's someone who doesn't itemize, just getting the standard deductions. So, couple percent is what someone is saving off their adjusted gross income. Rough estimate. So it's going to be unique to everybody but as part of this, they also changed what the standard deduction is. So that's another key component to this. So, everybody gets a portion of their income tax free. And that's what they call the standard deduction. If you're single, the standard deduction in 2018 is 12,000, if you're married it's 24,000.

The old rule, if they didn't change it, it would have been 6500 for a single person and 13,000 for a married couple so you can see there's a big jump in the standard deduction.

Bill Keen: This is going to simplify things for a lot of people that had smaller itemizations, isn't it? A lot of people will probably be taking the standard deduction now.

Matt Wilson: That's right. Actually I saw a statistic that said it's about 70% 2017 and prior years, 70% of individuals would claim the standard deduction. It's now looking at about 94% of individuals will now claim the standard deduction. Tax fining. So individuals, married couples kind of all in one right.

Bill Keen: Right. So moving the tax system to something more simple. Do we do we call Ripley's Believe It Or Not for that?

Matt Wilson: I know. It is going to simplify things. I mean, they did joke about filling out your tax return on a postcard.

So the standard deduction, so now we're seeing this increase but what changed was they got rid of the personal exemptions. So in 2017, if you weren't itemizing, you would claim the standard deduction and you would also claim a personal exemption. And that personal exemption is also income that you would get tax free. In 2018, if the rule didn't change would have been $4150. Now there is no more personal exemption.

So kind of to compare the two, the new rule is 24,000 standard deduction, no personal exemption. The old rule would have been for a married couple 13,000 standard deduction and then two personal exemptions which would have been an extra 8300. You'd add those two together, you'd be about 21,700. So, you're still better off with the higher standard deduction.

Bill Keen: So then the next, yeah, go ahead Steve.

Steve Sanduski: I was just going to say what's interesting is if you have several kids, you actually get penalized under the new tax law because under the old law, you had a personal exemption for each of your children, that was 4000 it change and now that's gone away. So if you have two personal exemptions, say a husband and wife and then you had say three children, that is another 12,000 for the three children plus 8000 for the husband and wife so there's 20,000 plus the original standard deduction of 13, so now you're at like 33,000 that you could deduct, versus with the new law you're capped at 24,000. So, that was I think one of the complicating factors with the new tax bill is that it is kind of vary, depending on your personal situation, if you're older with no kids or no kids in the house, yeah, you're probably going to see a break. If you still have multiple dependents, you may actually see a little bit of an increase. As you said, it really depends on what your personal situation is.

Matt Wilson: They did increase the child tax credit so that will offset some of the loss of the personal exemption. So that'll help too to an extent but it is again, yeah, it's going to be kind of unique, because it depends on how much you itemize you get a certain portion of your income tax free and that's the standard, but if you have certain expenses over and above the standard deduction we'll let you claim that. So you'll get a higher portion of your income tax free and that's called claiming the itemized deduction.

Bill Keen: So things like state income tax, mortgage interest, charitable contributions, that kind of thing, right?

Matt Wilson: That's right. And that got tweaked a little bit too. So, the biggest one was the state and local income taxes.

Bill Keen: I've never heard this term before but now we talk about SALT, Steve. You need to understand these acronyms.

Steve Sanduski: I think a salt obviously is what you put on food but I'm going to test people here. You go way back and we think of SALT, wasn't that a treaty like the Strategic Arms Limitation Treaty or something like that, back maybe in the Reagan days?

Bill Keen: I think it was. I do think it was.

Matt Wilson: Wow. Pulling a deep one out here.

Steve Sanduski: You know, we got to keep you guys on your toes.

Bill Keen: I like it. I'm thinking more of like putting salt on your wounds is how I'm looking at it.

Steve Sanduski: Yeah, there you go. We could have a field day with the stuff related to salt.

Bill Keen: Right, right. So state and local taxes.

Matt Wilson: State and local taxes.

Bill Keen: Which also includes property tax I believe.

Matt Wilson: It does. Real estate taxes, property taxes, those are included in this. And the original proposal was not to have any of that deductible. So 2017 and prior years, you were able to deduct from your federal tax return, the taxes you pay to your state and to your local municipality. Make sense.

Bill Keen: Kind of makes sense, doesn't it. You're paying money in taxes to the state so nice to not have to pay tax on that money that went to taxes. That would be reasonable.

Matt Wilson: It does make sense that they would allow you to deduct that. To the detriment of some of these high tax states like New York and California, they did compromise and they capped it. So the state and local tax deduction still exist but only up to $10,000.

Bill Keen: Between all those different things combined.

Matt Wilson:	That's right. So for working individuals, you could be paying more than that in just state income taxes.
Bill Keen:	So if you're making a couple hundred thousand a year, you're paying maybe 10,000 in state tax and then if you have a home, you pay some property tax, there you go.
Matt Wilson:	Maybe a local income tax. Like here in Kansas City there's an extra tax if you work in the city. Property tax, real estate taxes, all of those things are all added together and capped to $10,000. So that is a big hit to especially itemized people who claim the itemized deduction because now you're going to be limited to that amount. I'm seeing some articles online about how states might try to help their constituents out by figuring ways around this. I saw one proposal that said, well, we'll just cap your taxes at $10,000 and the rest will be considered a charitable donation. You still owe the same amount so I don't know how that would work. I think they're all just kind of trying to figure out if there's ways to work the system here a little bit to help their local taxpayers.
Bill Keen:	California and New York's trying to keep their residents there until they can let the sink in a little bit, aren't they.
Steve Sanduski:	I think there's probably another name for this tax bill. It should be called the long term C.P.A. and tax attorney full employment act.
Bill Keen:	Right, and it keeps us on our toes and busy as well. I guess it's all good.
Steve Sanduski:	There'll be lots of time and energy spent trying to find ways to really, I don't want to say game the system, although that's essentially what I think may happen in some cases but really trying to take advantage of the way the laws have been written to make it most tax favored to the taxpayers. So there'll be a lot of that stuff happening over the next 12 to 24 months.
Matt Wilson:	That's right. And of course all these rules are set to expire in 2025 so don't get too attached to them.
Bill Keen:	Here's what's funny, they say that the corporate, which we haven't talked about yet, the corporate tax rate which was the big change is permanent but these personal rates are set to revert back to what was it, 2025?
Matt Wilson:	Yeah, 2025.
Bill Keen:	Is there anything that's permanent?
Matt Wilson:	Taxes. You can count on always having to pay taxes.

Bill Keen: Oh, Taxes in general.

Matt Wilson: Yes.

Bill Keen: One is permanent, one is not permanent. I'm not certain if exactly any of this is permanent.

Matt Wilson: Change is the only constant, that's a quote we hear.

Bill Keen: They say death but heck, with the changes in medical technology maybe we're going to live and cheat death.

Matt Wilson: Move to Mars.

Bill Keen: That's a whole nother story on financial planning.

Steve Sanduski: We'll save that for another episode.

Bill Keen: I wanted to mention something just real quickly because I do get questions on this thing called the marriage penalty if you're not familiar, kind of a simplified version is let's say the two single individuals earned a taxable income of 90,000 per year. Under the old 2018 tax brackets both of those individuals would fall into the 25% for singles. However, if they were to get married, their combined income of one 180 would catapult them into the 28% bracket. So under the new brackets they would fall into the 24% marginal bracket regardless of whether they got married or not.

Steve Sanduski: That's good, we don't want to penalize marriage.

Bill Keen: Exactly.

Matt Wilson: That's right. There's a couple more deductions that they did change which will have some impact on individuals. The mortgage interest deduction, now this probably doesn't hit that many people but they allowed you to deduct mortgage interest on the first one million dollars of mortgage that you have. So, you know, that's not common to have a million dollar mortgage plus. Well, the new rule now is for any new mortgages the cap now for deductible interest is on 750,000. Now, we're here in the Midwest so we don't see as many mortgages that big but again that's going to hit the coast a lot harder.

In addition to that though, they also, this is a big one, they got rid of the deductibility of home equity loan interest. So, if you have a home equity loan, 2017, you're able to deduct the interest, 2018, you are not able to deduct the interest.

Bill Keen: So, the way I understand it is if you have an existing mortgage that's a million, you still get to deduct it, but if you have an existing home equity loan or HELOC we call them, yeah, that's not grandfathered in.

Matt Wilson: Not grandfathered in. So, in some cases it could make sense to refinance, roll that back into your, to a first mortgage and then you'll be able to deduct it again. But again, if you refinance, you're going to be subject to the new limit so you've got to take that into consideration.

The other thing that they changed to was around medical expenses. So, medical expenses, you haven't been able to deduct any medical expenses on the first 10% of your AGI. So for example, if you had $100,000 of adjusted gross income, 10% of that, first $10,000 of medical expenses aren't deductible. So if you had $20,000 in medical expenses, you can't deduct the first 10,000, you can only deduct the second 10,000. Well, they changed that, they'd lowered it, it's going to be seven and a half percent of adjusted gross income. So they gave a little bit on that one to individuals and families with higher medical expenses.

Bill Keen: And it was seven and a half percent before, we changed it up to 10 recently, right?

Matt Wilson: 10 is a new number that's been out there for the last couple years. Was seven and a half percent, now it's going back down. And this is one of the only rules that is retroactive in 2017.

Bill Keen: Right, right.

Matt Wilson: You can deduct this, this will apply when you're doing your 2017 taxes. Your medical expenses have a lower threshold. So that's something that is nice for those individuals. Outside of that, there's some changes to the AMT which doesn't hit a lot of people but the new changes in the tax rules will help people that got hit by AMT in the past, AMT stands for the alternative minimum tax. So it was a way for the I.R.S. to tax wealthy individuals back several decades ago that were using all these deductions and exemptions to get out taxes. Well, they have this formula that says, well, based on a certain level of income, you're going to pay a minimum amount of tax no matter what and that's what this alternative minimum tax is.

Well, they haven't been adjusting those brackets for decades and so it's hitting more and more people now they've increased those thresholds.

The other the other issue is the estate tax exemption. They increased that so the current rules are an estate valued at 5.6 million per individual. So 11.2 million per married couple. Well, that now has been doubled in 2018 going forward. It's 11.2 million now per individual, 22.4 million per couple. So, less and less people will be subject to the estate tax than prior years.

Bill Keen: Steve, you'll still be subject to the estate tax though, right?

Steve Sanduski: I will. But I'll still save a lot by doubling it to 22.4 million.

Matt Wilson: All that Bitcoin you've been hoarding.

Steve Sanduski: That's right. The Bitcoin and Ripple and Litecoin and Ethereum, you bet you.

Bill Keen: He doesn't have any of it though Matt, because remember last episode he said, or two episodes ago he said if he had made it he wouldn't talk to us anymore.

Matt Wilson: Yeah, that's right. Well, we'd have to help you navigate this tax mess that you're in.

Steve Sanduski: That's right, that's right.

Bill Keen: And then how they're going to be taxing Bitcoin is a whole nother episode.

Steve Sanduski: And we could discuss all that on my G5 as we're flying around the country.

Bill Keen: Now you got my attention, Steve, I would be your advisor if that's the case.

Steve Sanduski: You could fly it too.

Bill Keen: I would get the training, I would.

Matt Wilson: There's one piece to the individual, to the tax code that I think didn't get a lot of airplay because most people probably don't think about it but they adjust the brackets every year for inflation. So this is built in to the tax code that they're going to increase the brackets, the dollar amount. So the first 10%, you know, it's $19,050 in 2018. Last year, it was 18,550 I believe. So, there's a $500 increase there, that's the inflation adjustment that they apply to these brackets every single year.

Well, they used a formula based on the CPI and it was officially called the CPI-U and it was just essentially just tracks a basket of goods and services that the typical household would buy. So they would adjust the brackets based on whatever this calculation, whatever this measure was on an annual basis.

Bill Keen: CPI, consumer price index, sometimes these acronyms we throw out.

Matt Wilson: That's right. So the new law is now changing it to what's called the chained CPI. And essentially the key difference with that is that the chained CPI assumes that if there's a particular good or service that gets too expensive, consumers will trade down to a cheaper alternative. So what that means is that the rate of inflation that these brackets are going to increase by is going to be reduced when you just compare CPI to the chained CPI, chained CPI is lower than CPI.

Bill Keen: It will be lower.

Matt Wilson: As time goes on, more and more people will be in the higher brackets. Their wages should inflate faster than this and wages go up but the brackets aren't tracking inflation as fast so you're going to be paying more in taxes because the brackets are increasing faster.

Bill Keen: Now that's a sneaky way to over time make quite a difference isn't it in tax revenue?

Matt Wilson: That's right.

Bill Keen: Interesting.

Matt Wilson: One of the things they threw in there to try and maybe help this trillion, trillion and half dollar deficit that is getting discussed about what these brackets will cost, but even more so, probably the bigger overarching issue is that chained CPI, now that it's applied to the tax brackets that the I.R.S. uses, it could now be up for discussion for Social Security cost of living adjustments. So right now they use the higher CPI. Now that they've already implemented it there for the tax brackets, I wouldn't put it past Congress to start discussing that now going forward to change how Social Security COLA's are calculated.

Bill Keen: Interesting.

Matt Wilson: They sneak those things in there and then they start to change everything.

Steve Sanduski: They do.

Bill Keen: We had several years of zero, right? Are we going to go negative on those at some point in this new arrangement?

Matt Wilson: They haven't gone negative yet but I wouldn't put it past them.

Steve Sanduski: So I think just some key things to think about here maybe to summarize what I hear you guys saying is as we look at this overall tax changes as it applies to individual, generally speaking, we think that most people will see a reduction in their tax bill. Again, everyone's situation is different but on balance probably more than half of the population is going to see a tax decrease at least for 2018 and maybe the first few years. And some people will benefit more than others and then the individual tax changes, the tax laws that apply to individuals were temporary so those are going to be in place through 2025 tax year but then they are scheduled to revert back to what they were.

Now, chances are that we're going to have a whole different situation by the time 2025 rolls around, Congress will be changing things. So we have no idea what things will look like in 2025 so all we can deal with is where are we at right now.

So, again, we should see on balance some reductions for the average American. Now, I think maybe we need to spend a minute here talking about the corporate tax changes because that is what seems to be getting the financial markets all excited with some of the big changes we've seen on the corporate tax side of the ledger.

Matt Wilson: Yeah, corporate taxes did change. So, the new rate is now 21% on all profits. Prior to that basically, the threshold was 35% on profits on taxable income over 18 million which hit most major businesses here in the United States. So, now we're going from 35 down to 21 and it's 21 flat. So, they have brackets before but for bigger businesses, the brackets really didn't matter that much. Now here's one interesting piece to this. I mentioned this at our outlook when I did my presentation, is in the United States the effective corporate tax rate is 18%. Even when we've been higher at 35, most corporations aren't paying 35%.

Bill Keen: So how were they getting their rate down to 18?

Matt Wilson: So there's all kinds of business deductions and exemptions and ways to reduce your corporate tax rate. Now that it's 21 flat, again, probably not much of a windfall from new taxes going forward because essentially businesses weren't paying that much to begin with, they've been paying 18 when you just looked at all business taxable revenue.

Bill Keen: So will we look up a year or so from now and say, wow, okay, 21 was the flat rate but they're only paying 13 or something because of the way Steve said earlier kind of well, gaming the system. I don't know, maybe it's just working with what you're given.

Matt Wilson: I mean, that's what the tax code says. So that's one thing that we'll watch closely is to see okay, what is the new effective rate. Because the effective rate's what we care about, that's what you pay in tax dollars divided into your income, whether you're individual or a business, how much taxes do you pay in dollars divided into your income. So, we'll pay close attention to that. But also, they did change the repatriation on foreign cash and foreign assets. So, what the old rule was, was to bring those assets or that cash back to the United States then you had to apply the higher tax brackets to that revenue. So you're talking basically 35% to bring back. We're looking at anywhere from two to three trillion dollars in cash and assets overseas.

Most companies have just been leaving it over there. It's not being productive over there but they're not seeing a 35% tax rate applied to it either. So, part of this tax reform here is they have now for repatriated cash, it's 15 and a half percent and then on assets, illiquid assets like equipment, those are taxed at an

8%. So, they have reduced that significantly, even lower than the corporate tax rate to spur businesses to bring that back here to the United States.

Bill Keen: Have we had any announcements yet for many companies declaring that they're doing that or I guess they don't necessarily have to do that or announce that but I know Apple has something like 200 billion dollars parked overseas at this time. This could be a big factor.

Matt Wilson: After the passage of this, we did see several major corporations announce one time bonuses in that thousand dollar range, I saw several businesses announce that. We're not seeing much on this repatriation because I think they want to just run through what their taxes look like and don't want to get too ahead of themselves because this is a major decision that they don't want to just knee-jerk and say they're going to do it without actually running through all the figures first.

Steve Sanduski: And this repatriation is really an interesting issue because the way that money got overseas to begin with is these are American companies who would have say a foreign subsidiary and then they would make a sale like in England or they'd make a sale in Germany or Australia. And so, that would be counted as revenue in that country and so the money then would technically like sit in that country and they couldn't pull that money back into their US bank accounts without paying that 35% tax rate. And so that's when we were hearing in recent years where American based companies were changing their domicile to be Ireland for example or somewhere in the Isle of Man or some other oddball country that had a super low corporate tax rate.

So these companies instead of being an American based company even though they may have been founded here, they changed where they were officially headquartered to be this other country that had a lower tax rate and hopefully this new change, lowering the repatriation would preclude people from trying to do that because now we've got a more comparable corporate tax rate where it doesn't make sense for US companies to say well, we're going to change from being headquartered in Chicago to being headquartered in Dublin, Ireland because they've got a 9% corporate tax rate or whatever it may be. So hopefully there'll be some benefits there and it'll more level the playing field internationally.

Matt Wilson: Yeah. Essentially they were double taxed. The system now says you have to pay foreign tax on it wherever you earn that, whatever country you earn that in you're going to be subject to whatever their tax rules are. And then to bring it back, you're taxed again here in the U.S. So, this is to make our corporate tax system much more competitive across the globe.

The US is one of the last countries to actually reduce their corporate tax rate. Countries across the globe have been doing this for years and the U.S. has held out and we're finally kind of catching up with all the other countries.

Steve Sanduski: Now guys, what do you think the impact on the US financial markets has been from these tax changes. Now obviously, we've had an amazing run in the financial markets here just in the past 12, 18 months, how much of it do you really attribute to anticipation of reforming our tax laws verses the economy is just continuing to roll along here and doing well. Do you have any cents for how you think about that?

Matt Wilson: The two things that drive the market are earnings, corporate earnings and just the health of the economy, growth and G.D.P. essentially. Corporate earnings in 2017 had zero impact by this new tax law and corporate earnings grew significantly on a year over year basis from 2016 and that's what drove the market higher. I mean, we dug into and we looked at different types of stocks and what tax rate they were subject to and you would think with all this chatter around this new proposed, especially throughout 2017 all the tax proposal would be driving high tax stocks higher because you would think, okay, stocks are in a high tax bracket, they're going to get a nice windfall. They should be outperforming low tax stocks, stocks that don't pay a lot of taxes to begin with it, which would have very little impact by new tax laws. That was not the case. Low tax stocks outperformed high tax stocks in 2017.

Bill Keen: I would encourage our listeners if you haven't already to go back the last episode on our podcast which was also video taped and it's out there online at keenonretirement.com. Matt did a great job and we had his video presentation plus all his slides so that specific slide that he just mentioned or that information he just mentioned was in a slide format along with quite a few others where he does a really good job answering that question, Steve, that you asked and many others as well. So if you haven't gone back and watched that video I would recommend you do that.

But it's interesting to hear Matt say this tax legislation had nothing to do with 2017 and its earnings and the company corporate tax earnings because it wasn't out there yet.

Matt Wilson: That's right.

Bill Keen: So our take is what Matt, this tax passage had less to do with where we are today than most people think.

Matt Wilson: That's right. I mean, there are definitely some market movement higher just because taxes are going down because now future earnings, so 2018 earnings are going to be better because the corporations would pay lower tax. At least that's the theory, we'll see once earnings actually come out on a quarterly basis. But if this law didn't pass, the market would have reacted short term but long term it's always going to come back to are companies' earnings growing or declining. What are we doing on a quarter over quarter basis, year over year basis. That's always what the market trades back to is profitability of companies and also the health of the economy, growth of G.D.P. too.

Steve Sanduski: Well guys, I think it's fair to say that as a result of these tax changes, generally speaking, there's going to be more cash in people's pockets and more cash in corporations' coffers which is good for everybody. So, as we wrap up here, do you guys have any final comments?

Bill Keen: We sit down each year and just kind of try to think ahead and be proactive as we project out, what makes sense today that we can do strategy wise and then how that might affect us down the road as we have to navigate and pivot with how laws change and life happens.

We also talk with a lot of our clients C.P.A.'s where we'll run a scenario and then we'll put it in front of a client C.P.A.'s to make sure we're not missing something and we'll literally ask the C.P.A., have them come to our office or we go to theirs and say shoot holes in what we're thinking here planning wise and really put our heads together with those other professionals. So, I think the theme of today's takeaway is get out ahead of these things, think things through, sit down with your fiduciary advisor, your tax advisor and start to put pencil to paper on how these things might affect you going forward. Of course we have the rest of the year for the '18 taxes to make changes and amendments and adjustments but it's good to be talking about it early.

Steve Sanduski: Excellent. Well, hey, thanks guys. Another great show. Went through a lot of material here today, really important things to be talking about and I look forward to a great year here in 2018 in the podcast as well as in all the great work that the folks here are keen wealth advisors are doing. So thanks, guys, we'll talk to you soon.

Bill Keen: Well, thank you, Steve, we'll talk to you on the next episode.