2019 PLANNING GUIDE

Helping Clients Plan for and Achieve Financial Goals

PROBITY ADVISORS, INC®

Plan. Execute. Achieve.

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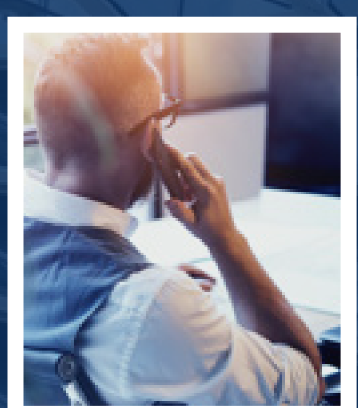

Introduction

Probity Advisors, Inc. is here to help you achieve your financial goals at every stage of life – whether saving for college, enjoying retirement, or somewhere in between. Use this guide to contemplate planning topics you may wish to discuss with your advisor. If you have any questions, please do not hesitate to contact us at (214) 891-8131.

2019 PLANNING GUIDE

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Planning Opportunities Under the Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (TCJA) that went into effect in January 2018 constitutes the largest changes to the U.S. tax code in more than three decades. Here's a summary of major tax revisions brought on by the TCJA and related financial and estate planning opportunities.

New Tax Brackets Under TCJA

The TCJA lowered tax rates while keeping the number of brackets at seven. The new tax rates are set to expire in 2025 unless Congress extends them. The seven U.S. tax brackets for each of the four main filing statuses are below.

SINGLE FILERS

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $9,525	10% of taxable income
12%	$9,526 to $38,700	$952.50 plus 12% of the amount over $9,525
22%	$38,701 to $82,500	$4,453.50 plus 22% of the amount over $38,700
24%	$82,501 to $157,500	$14,089.50 plus 24% of the amount over $82,500
32%	$157,501 to $200,000	$32,089.50 plus 32% of the amount over $157,500
35%	$200,001 to $500,000	$45,689.50 plus 35% of the amount over $200,000
37%	$500,001 or more	$150,689.50 plus 37% of the amount over $500,000

MARRIED FILING JOINTLY

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $19,050	10% of taxable income
12%	$19,051 to $77,400	$1,905 plus 12% of the amount over $19,050
22%	$77,401 to $165,000	$8,907 plus 22% of the amount over $77,400
24%	$165,001 to $315,000	$28,179 plus 24% of the amount over $165,000
32%	$315,001 to $400,000	$64,179 plus 32% of the amount over $315,000
35%	$400,001 to $600,000	$91,379 plus 35% of the amount over $400,000
37%	$600,001 or more	$161,379 plus 37% of the amount over $600,000

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MARRIED FILING SEPARATELY

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $9,525	10% of taxable income
12%	$9,526 to $38,700	$952.50 plus 12% of the amount over $9,525
22%	$38,701 to $82,500	$4,453.50 plus 22% of the amount over $38,700
24%	$82,501 to $157,500	$14,089.50 plus 24% of the amount over $82,500
32%	$157,501 to $200,000	$32,089.50 plus 32% of the amount over $157,500
35%	$200,001 to $300,000	$45,689.50 plus 35% of the amount over $200,000
37%	$300,001 or more	$80,689.50 plus 37% of the amount over $300,000

HEAD OF HOUSEHOLD

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $13,600	10% of taxable income
12%	$13,601 to $51,800	$1,360 plus 12% of the amount over $13,600
22%	$51,801 to $82,500	$5,944 plus 22% of the amount over $51,800
24%	$82,501 to $157,500	$12,698 plus 24% of the amount over $82,500
32%	$157,501 to $200,000	$30,698 plus 32% of the amount over $157,500
35%	$200,001 to $500,000	$44,298 plus 35% of the amount over $200,000
37%	$500,001 or more	$149,298 plus 37% of the amount over $500,000

PLANNING OPPORTUNITY

Lower tax rates might mean taxpayers will need to adjust their estimated quarterly tax payments or change the amount of withholding on their paychecks.

Itemize to Deduct Charitable Gifts

Taxpayers who itemize can continue to file for the charitable deduction. For background, the IRS offers taxpayers two options for reducing their taxable income: (1) the standard deduction — a fixed dollar amount that depends on the taxpayer's age and filing status (i.e. single, head of household, married filing jointly, etc.), or (2) the itemized deduction which allows taxpayers to deduct home mortgage interest, real estate and personal property taxes, state and local income taxes or sales taxes (but not both), charitable gifts, unreimbursed medical and dental expenses, and other expenses. Naturally, most taxpayers choose the deduction that gives them the biggest tax break.

New Standard Deduction Almost Double

Under the new tax law, the standard deduction for 2018 will nearly double the 2017 amount. The TCJA increases the deduction to $12,000 for individuals and $24,000 for married couples filing jointly. Prior to the TJCA, the standard deduction was $6,350 for single filers and $12,700 for joint filers. As mentioned, the new law doesn't change the basic rules for charitable deductions. However, because the law nearly doubled the standard deduction, fewer people will itemize deductions — and you can only deduct charitable contributions if you itemize.

PLANNING OPPORTUNITY

Charitable donations can be "bunched" or increased in alternating years to exceed the new $24,000 standard deduction threshold.

Qualified Charitable Distributions (QCDs) Remain

The rules for QCDs remain unchanged under the TCJA; individuals who are 70 ½ and older can still transfer up to $100,000 from their IRAs to charity each year and have it count as their required minimum distribution without being added to their adjusted gross income.

No more Personal and Dependent Exemptions

Before the TCJA, eligible taxpayers could claim an exemption for themselves, their spouse, and their dependents. The TCJA suspended the personal exemption until 2025. The lower tax rates and the higher standard deduction may or may not make up for the removal of the personal and dependent exemptions since each taxpayer's situation varies.

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Continue Deducting Mortgage Interest

Under the TCJA, the home mortgage interest deduction was spared, however the amount of home mortgage allowable dropped to $750,000 of qualified residence loans. Previously, the deduction was available for as much as $1 million of mortgages and $100,000 of home equity debt. Mortgages taken out prior to December 15, 2017 are grandfathered at $1 million. Taxpayers can still deduct interest on a home equity loan, home equity line of credit, or second mortgage. However, the new law eliminates the deduction for interest paid on home equity and lines of credit "unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan." If a taxpayer borrows against their home equity to pay off credit card debt or take a family vacation, the deduction does not apply. As under prior law, the loan must be secured by the taxpayer's main home or second home (known as a qualified residence) and not exceed the cost of the home.

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Individuals considering refinancing their home mortgage or purchasing a new home should take this into account.

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What is the Child Tax Credit Under the TCJA?
While deductions reduce your taxable income, tax credits provide a dollar-for-dollar reduction of your income tax liability. The new Child Tax Credit for dependent children under the age of 17 doubles the Child Tax Credit amount from $1,000 to $2,000 per qualifying child.

Prior to the TCJA, the tax credit was phased out for married taxpayers who earned more than $110,000 and for single filers at $75,000. The TCJA raised the phase-out to $400,000 for married couples and $200,000 for single, head of household, and qualifying widow(er) filers. The tax reform bill also includes a $500 Family Tax Credit for other dependents, such as for an aging parent who depends on you for care or an older child whose support you provide.

What is the Adoption Tax Credit?
For adoptions finalized in 2018, the Adoption Tax Credit is up to $13,810 per child. The child must be under the age of 18 or special needs and cannot be a stepchild. The tax credit rises to $14,080 per child for adoptions finalized in 2019. Your income might affect your ability to qualify for the credit.

PLANNING OPPORTUNITY

More families will be able to claim the Child Tax Credit and a new Family Tax Credit. Families who adopt can utilize the increased tax credit to help cover expenses such as attorney fees and court costs.

Understanding the New Estate Tax Exemption Under the TCJA
The new TCJA increased the estate tax exemption to $11.18 million for an individual. When a person dies, their estate will not owe any federal estate tax if it is under the exemption amount. Before the TCJA, the first $5.49 million of transferred property was exempt from estate and gift tax. The majority of American taxpayers will not pay any federal estate taxes because their estates fall below the exemption. Depending on the size of your estate, your advisor may recommend changes to your estate plan due to the new exemption. For married couples, your estate plan may include a "family" or "bypass" trust whereby upon the death of a spouse, the deceased spouse's portion of the assets — up to the amount of the estate tax exemption — go into the trust to provide for the surviving spouse. When the assets transfer, the basis is "stepped up" to the market value on the day the owner died, avoiding any capital gains.

With the increase in the estate tax exemption, this may cause all assets of the first deceased spouse to pass to the family trust. When the second spouse dies, these assets do not receive another step-up in basis. The second spouse's heirs may pay higher capital gains taxes than if the heirs had inherited the assets outright. However, from an estate planning perspective, a family or bypass trust can help accomplish a range of other planning objectives.

Below are a few considerations that are worth examining or discussing with your advisor when contemplating the role of a family or bypass trust in your estate plan.

- Ensuring control over the dispersal of your assets
- Planning against unintended heirs
- Receiving income tax planning benefits that may offset the loss of the second step-up in basis
- Avoiding probate and any legal challenges of asset dispersal
- Preventing an inheritance from becoming an impediment to a productive, fulfilling life
- Meeting any charitable objectives
- Providing and protecting assets for beneficiaries who cannot responsibly manage them, such as for special needs or financially irresponsible family members
- Protecting assets from creditors

PLANNING OPPORTUNITY

A family trust can accomplish estate planning objectives but may not maximize income tax planning, so discuss your estate planning goals with your advisor and whether the TCJA affects your estate plan. Additionally, those with significant assets should consider opportunities to utilize the higher gift tax exemption before it is scheduled to revert to 2017 amounts.

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SECTION 1

Planning Opportunities Under the Tax Cuts and Jobs Act

Benefits of the New Pass Through Deduction for Businesses

The new pass through deduction aims to boost small-to-mid-sized businesses that are structured as a sole proprietorship, S corporation, or as a partnership. LLCs may also qualify under certain circumstances. For these pass through entities (PTEs), business profits are passed through to owners and declared as individual income on tax returns — and taxed at the individual's personal income tax rate (which had reached as high as 39.6% under prior law). In contrast, owners of a C corporation are taxed on earnings at the business level, and then again when the corporation distributes the profits to shareholders in the form of dividends. For 2017, corporate tax rates ranged from 15% to 39%. The TCJA reduced the corporate tax rate to a flat rate of 21% and enacted a 20% pass through deduction for PTEs, seemingly to level the playing field between C corporations and PTEs.

Qualified Business Income

The pass through deduction allows owners of PTEs to take a deduction of 20% against their qualified business income (QBI), thereby reducing the top marginal tax rate on PTEs. QBI is the net amount of income, gains, deductions, and losses, exclusive of reasonable compensation, certain investment items, and payments to partners for services rendered. Limitations and thresholds apply, so calculating the pass through deduction is not simple. The IRS will continue to clarify some of the more complex components of the provisions over the coming months. Your tax advisor can help you determine if your business qualifies for the deduction.

PLANNING OPPORTUNITY

Individuals with QBI can discuss with their advisor a variety of planning strategies to maximize the 20% deduction.

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Retirement Planning: Start Early, Keep It Up

When planning for retirement, the earlier you start saving and investing, the better off you will be. The information below can help you understand retirement planning tools and strategies to make the most of your retirement accounts.

401(k)s and IRAs

401(k)s and IRAs (individual retirement accounts) both offer tax benefits designed to help Americans accumulate money for retirement. The main difference between the two is that a 401(k), along with 403(b) and 457 plans, are employer-based retirement plans. An IRA is an individual plan, and any individual who is younger than 70 ½ and earning an income can set up an IRA. There are two main types of IRAs: traditional and Roth. With a traditional IRA, you don't pay taxes when you make contributions. Instead, the taxes are paid when you withdraw the money. With a Roth IRA, you pay the taxes up front and any gains accumulate tax-free. In addition, with a traditional IRA and 401(k), you are required to start taking minimum distributions at age 70 ½, but with a Roth IRA there is no requirement to take distributions during your lifetime.

If you have access to either or both types of accounts, you'll find a few strategies our advisors recommend below to make the most of them.

Max Out Your 401(k)

If you have a 401(k) plan, maximize your annual contributions to lower your taxable income and help build your nest egg faster. For 2019, the maximum amount of money you can contribute to your 401(k) – the elective deferral limit – increases to $19,000 from $18,500 in 2018. Workers age 50 and older can contribute an additional $6,000 to their 401(k). The chart below shows the contribution limits for a variety of retirement accounts.

Be sure to take advantage of any matching contributions from your employer. For example, if you earn $100,000 per year and save 6% of your pay, or $6,000, and if your employer matches half of that, you could get another $3,000 from your employer in matching contributions. Don't pass up the "free money" you might get through a matching program. If you are not receiving the full match, consider talking to your employer about increasing your 401(k) paycheck deductions.

Max Out Your IRA

You can contribute up to $5,500 to an IRA for 2018. Workers age 50 and older can contribute an additional $1,000 to an IRA. For 2019, the maximum IRA contribution increases to $6,000 ($7,000 if you are age 50 or older by the end of the year).

Unlike 401(k) contributions which generally need to be made by December 31st, individuals have until the April tax filing deadline to fund their IRA for the prior year. The tax deduction for IRA contributions may be limited if you or your spouse are covered by a workplace retirement plan.

For business owners, make your company's contribution to your retirement plan

If you offer employees a SEP, Profit Sharing Plan, or other type of retirement savings benefit, you must deposit contributions by the due date for filing your federal income tax return. If you obtain an extension for filing your tax return, you have until the end of that extension period to deposit the contribution, regardless of when you file the return. For self-employed individuals, the maximum annual contribution to SEPs is the lesser of 25% of compensation or $55,000 for 2018 and $56,000 for 2019.

PLANNING OPPORTUNITY

Your advisor can help you determine the type or types of retirement accounts that may be optimal for your individual situation and discuss with you the tax implications for each account type.

2018 AND 2019 RETIREMENT PLAN CONTRIBUTION LIMITS

Retirement Plan	2018	2019	Increase
401(k), 403(b) and 457 Employee Contribution Limit	$18,500	$19,000	$500
401(k), 403(b) and 457 50+ Catch-up Contribution Limit	$6,000	$6,000	None
Traditional and Roth IRA Contribution Limit	$5,500	$6,000	$500
Traditional and Roth IRA 50+ Catch-up Contribution Limit	$1,000	$1,000	None
SIMPLE 401(k) and SIMPLE IRA Contributions Limit	$12,500	$13,000	$500
SIMPLE 401(k) or SIMPLE IRA 50+ Catch-up Contribution Limit	$3,000	$3,000	None
SEP IRA or Solo 401(k)	$55,000	$56,000	$1,000
Solo 401(k) 50+ Catch-up Contribution Limit	$6,000	$6,000	None

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Your Financial Parachute

Our advisors help individuals and businesses design and maintain sound financial and estate plans that can optimize your financial life. We can guide you and your family through fluctuating financial circumstances, such as:

First Job

- ☐ Develop good financial habits
- ☐ Pay down debt
- ☐ Establish savings goals
- ☐ Take advantage of employee benefit plans

Getting Married

- ☐ Create an estate plan
- ☐ Get disability insurance
- ☐ Designate beneficiaries
- ☐ Update your will
- ☐ Speak with an advisor about life insurance
- ☐ Invest wisely

Starting a Family

- ☐ Review estate plan
- ☐ Save for college
- ☐ Prepare for unexpected events
- ☐ Spend wisely
- ☐ Review life and disability insurance
- ☐ Consider special needs planning

Advancing Your Career

- ☐ Max out retirement contributions
- ☐ Be proactive in tax planning
- ☐ Discuss long term care plans with an advisor
- ☐ Review your investments
- ☐ Review financial goals

Nearing or During Retirement

- ☐ Manage taxes and preserve wealth
- ☐ Have adequate medical insurance
- ☐ Make sure your estate plan is up to date
- ☐ Accelerate saving and investing for retirement
- ☐ Begin retirement income planning

Divorce or Death of a Spouse

- ☐ Refine your financial plan
- ☐ Update your estate plan
- ☐ Review beneficiaries
- ☐ Review income needs and spending plan

Exiting or Selling a Business

- ☐ Determine financial and professional goals
- ☐ Identify potential successors
- ☐ Share plans with family members

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Comprehensive and ongoing financial planning that keeps up with evolving priorities and goals can help you achieve better outcomes.

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Strategic Estate Planning

Estate planning is often overlooked, as some people find it difficult to contemplate what will happen when they die, while others might rely only on a will. A will sets forth your wishes regarding the distribution of property and can include instructions regarding the care of minor children. An estate plan goes much farther than a will. In addition to dealing with the distribution of assets and legacy wishes, it may help you preserve and protect wealth for future generations.

Questions our advisors explore during estate planning:

- What life values are most important to you and that you hope to instill in your children or grandchildren?
- How do you wish your property and assets to be distributed upon your death?
- Are there any charitable interests you would like to preserve for future generations?
- Do you have any special needs dependents?
- If you have minor children, who will you name as their guardian(s) should something happen to you? Who will manage their financial assets?
- Is it important to you to provide for college education for your heirs?
- Who would be best suited to serve as executor and/or trustee of your estate?
- Do you wish to treat all your children equally in the dispersion of your assets?
- How important is avoiding unintended heirs to you?

Power of Attorney and Living Will

As part of a thorough estate planning process, our advisors recommend that individuals consider executing a Power of Attorney (POA) for your finances and a POA for health care. The first document allows you to name an agent and successor agents to make financial decisions for you in the event that you cannot make decisions for yourself. A health care POA is designed to govern who will make health care decisions for you in the event that you become incapacitated. Additionally, a living will, designed to set forth your wishes regarding your end of life health care choices, is also highly recommended.

Communicating Your Estate Plan

An estate plan along with your financial and health care POAs and living will are private documents that will only be effective if your family members know where to find them. Our advisors help you communicate to loved ones how to access these documents and recommend communicating your wishes to help prevent potential discord and misunderstandings among family members. Probity Advisors has experience planning and conducting family meetings and would be happy to help start the conversation. It is also a wonderful opportunity to share your values with the next generation so that they can continue your legacy.

The Path to Financial Confidence and Security

Many advisors focus solely on the numbers and calculations that go into managing your financial life. Others only focus on a singular aspect of your finances, such as your investment portfolio. We believe the best advisors listen to you and shape a financial plan around your complete financial picture, including all assets and liabilities, insurance policies and business interests, as well as your family situation, risk tolerance, tax picture, personal priorities and expectations, and business and financial goals. Comprehensive planning helps individuals achieve improved financial outcomes and gain greater confidence about their financial future. In addition, research also shows that a solid financial plan boosts emotional well-being.

The path to financial confidence and security is also about choosing the right advisor. Our advisors hold the industry's highest and most regarded credentials and designations and adhere to a fiduciary standard of care, meaning we act solely in our clients' best interest when offering personalized financial advice. This eliminates the conflicts of interest that may be inherent to commissioned advisors. The individuals and families we work with know they are receiving objective and unbiased advice they can trust.

How Estate Planning Benefits You

- Provide for your family and those you care about in a manner consistent with your wishes and intents
- Reduce attorney fees, probate fees, and executor expenses and minimize gift and estate taxes in order to preserve more of your assets for your heirs
- Minimize or prevent disputes and challenges to your wishes
- Reduce the likelihood of your assets being misappropriated by unintended heirs, such as a survivor's new spouse or children's spouses
- Help provide funds for estate settlement expenses, debt repayment, and if desired, educational expenses
- Determine how and by whom your assets will be managed during your lifetime if you cannot manage them for yourself
- Protect minor children and disabled adults from court-imposed guardianships and protect and provide for special needs dependents
- Specify contributions to any charitable causes you wish to support
- Establish when and under what circumstances to distribute your assets during your lifetime

Get A Financial Wellness Checkup

To help simplify the complexities of managing your financial life, our team of professionals has provided the following Financial Wellness Checklist:

- ☐ Review your Probity Advisors, Inc. Investment Profile, which includes your investment preferences, your risk profile, and your personal information, and call our office with any changes
- ☐ Review your estate plan, including your will, trusts, and power of attorney appointment(s)
- ☐ Conduct a beneficiary review of all of your accounts to ensure there are no changes or updates needed
- ☐ Have a digital estate plan to enable your heirs to access any online accounts or digital property
- ☐ If you have children or grandchildren, consider contributing to or opening a 529 college savings account
- ☐ Review your insurance needs
- ☐ Plan for any charitable contributions you wish to make
- ☐ Maximize tax effectiveness by gifting highly appreciated securities to your charity
- ☐ Consider having a family meeting to coordinate and communicate financial and estate matters
- ☐ Take your Required Minimum Distribution if you are age 70 ½ or above
- ☐ Communicate with business partners, employees, and anyone who may need to understand your business succession plan
- ☐ Meet with your advisor to ensure you are on track to achieving your financial goals

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