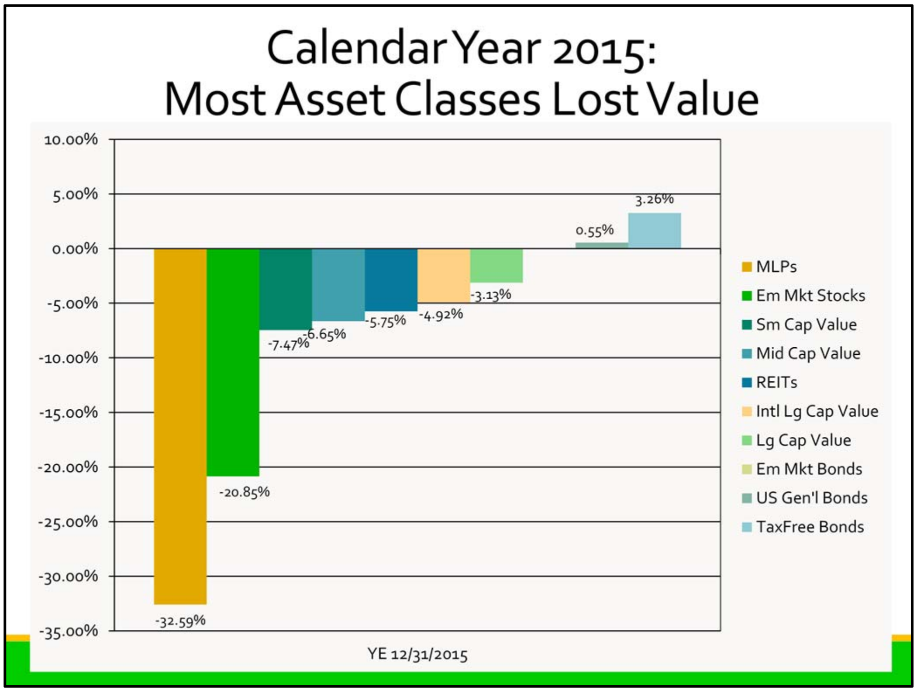
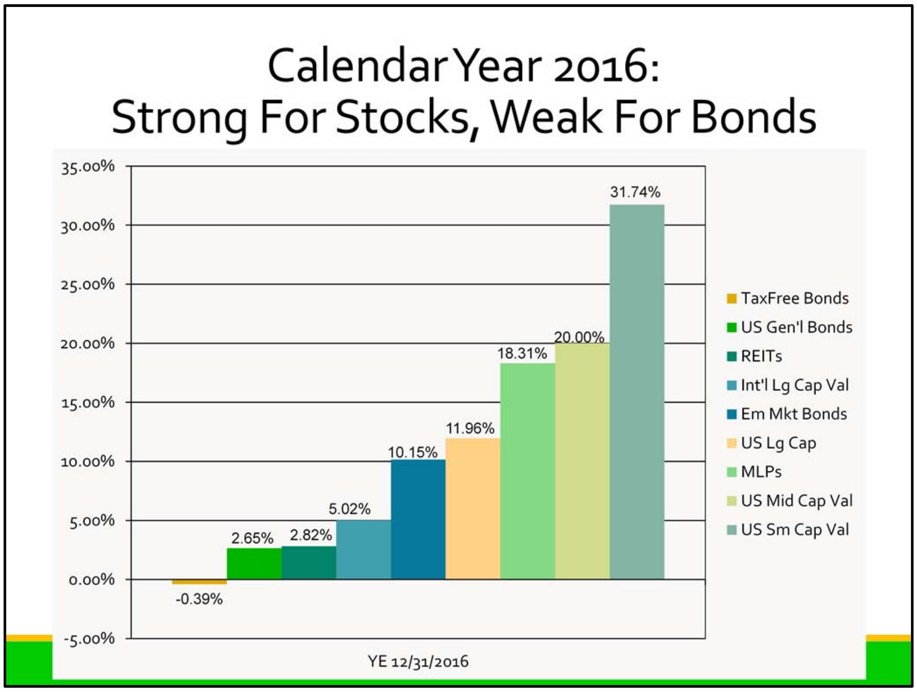
Berkeley, Inc.
Semi-Annual Presentation

JANUARY 21, 2017



Before reviewing the most recent year's performance information (2016), let's take a quick look at 2015. That year, all equity asset classes lost value, and the only sectors eking gains were US taxable and tax-free bonds.



Now, to review 2016's numbers: what a difference a year makes! That which was down was up—in many cases, way up. US small cap stocks led the way, followed by US mid caps and Master Limited Partnerships (MLPs; entities which own gas/oil pipelines and storage). By contrast, tax-free bonds lost a tad, while US taxable bonds did a bit better.

Outlook for 2017

- Higher Fiscal Deficits:
  - Lower Marginal Tax Rates
  - Some New Infrastructure Spending
  - Higher Defense Spending
- Few New Trade Barriers (Tariffs, etc.)
- Finance Sector Deregulation

We think Trump may be able to push forward with lower marginal tax rates for individuals and businesses. He may be able to get some infrastructure spending through (hopefully not blowing money on a wall with Mexico), but we think the economic impacts will be muted at best. He also could garner support for higher defense spending, but fiscal hawks in Congress will likely keep increases reined in to avoid substantially increasing the deficit.

We fervently hope that saner minds will prevail and despite the rhetoric, the US will continue to promote free trade; it's probably reasonable, however, to expect some new trade barriers as Trump attempts to placate his base. We trust someone with an economic background will explain how enacting tariffs hasn't worked historically, and can really damage US exports as countries retaliate with boycotts and/or trade protections of their own.

Trump has talked a lot about deregulating the finance sector, which is music to banks' ears; indeed, bank stocks have moved up sharply since the election (hence our move to sell a number of bank stocks into the strength). However, we cannot think of a time when deregulating the finance sector led to positive outcomes; anyone? Conversely, we expect that most elements of Dodd Frank will remain intact; banks are certainly safer and better capitalized these days as a result.

Outlook for 2017

- Greater Uncertainty with new Administration = Greater Volatility In Markets
- Cash/Money Markets: Positive Returns Once Again (Yay!)
- Bonds (assuming no imposition of trade-dampening tariffs):
  - 2-4 interest rate increases in 2017
  - 3-4 in 2018

Markets hate uncertainty, so expect 2017 to be a volatile year unless Trump sharply reduces his tweets and hyperbolic statements.

With the Fed moving up interest rates, savers will now see a (slightly) positive return on their cash.

Outlook for 2017

- Stocks:
  - US Stocks: historically average valuations
  - International Stocks: Relatively Attractive, e.g. Higher Dividend Yields, Lower PE Ratios

US stocks in the "Goldilocks" area, e.g. not rich, not cheap—just about right, e.g. fairly valued.

International stocks (developed markets), on the other hand, continue to look more attractive, from a valuation and cashflow (dividend) standpoint.

2017 Strategy

- Hold a bit more cash/money markets to buffer against expected market volatility
- Keep bond average maturities short to protect against interest rates moving higher
- Modestly increase high yield bonds given expected continuation of economic expansion
- Stock Strategy: depends on new Administration actions

If Trump’s actions don’t squelch the modest economic expansion, we think high yield bonds will earn decent returns as default rates would remain low.

As for stock strategy, “stay tuned;” that’s going to be a real moving target, depending on a largely unpredictable new Administration.

Corrections: A Refresher

From 1928 to 2016, on average:

- 5% losses 3 times per year
- 10% losses once per year
- 15% losses every 2 years
- 20% losses every 3-4 years

We thought that, since we haven’t had a correction in a while, it would be good to do a re-cap. If you’re not paying close attention, you could easily miss the 5% corrections we have, on average, 3 times/year. Further, you might even miss a 10% correction (the last one was split between the latter months of 2015 and early 2016). Most of us note the larger corrections; fortunately, they occur less frequently.

Corrections: A Refresher

S&P 500 Double Digit Losses, 1928-2016	Average Decline	Average Length (Days)
All double digit losses	-24.3%	232
Losses of 10% to 20%	-14.4%	135
Losses of 20% to 30%	-24.9%	235
Losses of 40%+	53.8%	498

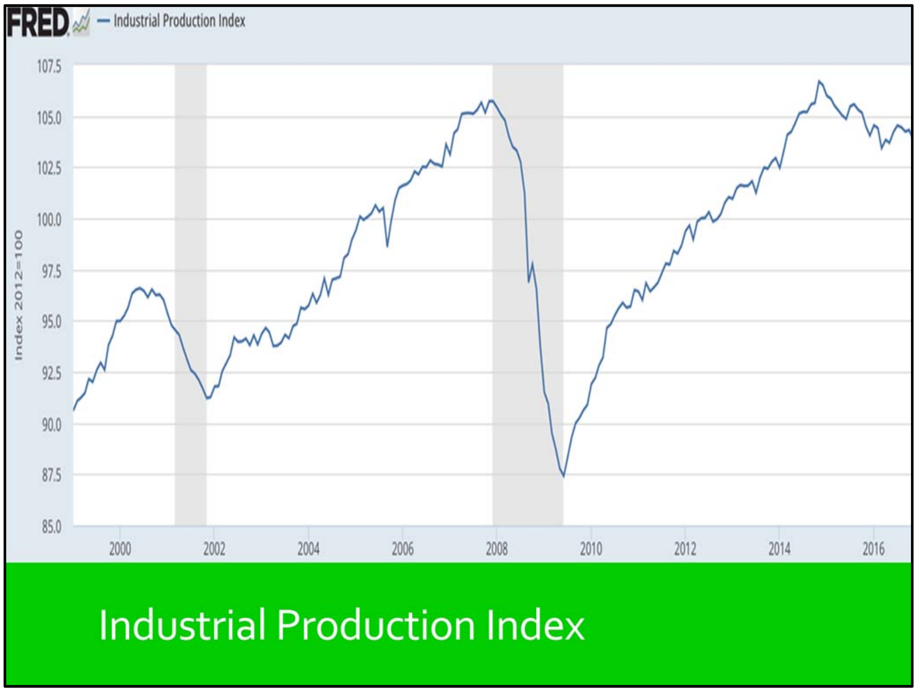
This chart is largely here to remind us that, in the midst of corrections, they can seem interminably long. On average, double-digit corrections last 232 days (nearly 8 months). While no one can perfectly time the bottom, we do try to be patient and gradually add to holdings after most of the sell-off appears to have occurred. Over time, if investors were able to buy gradually during times of market weakness, they would be amply rewarded.

Economic Summary

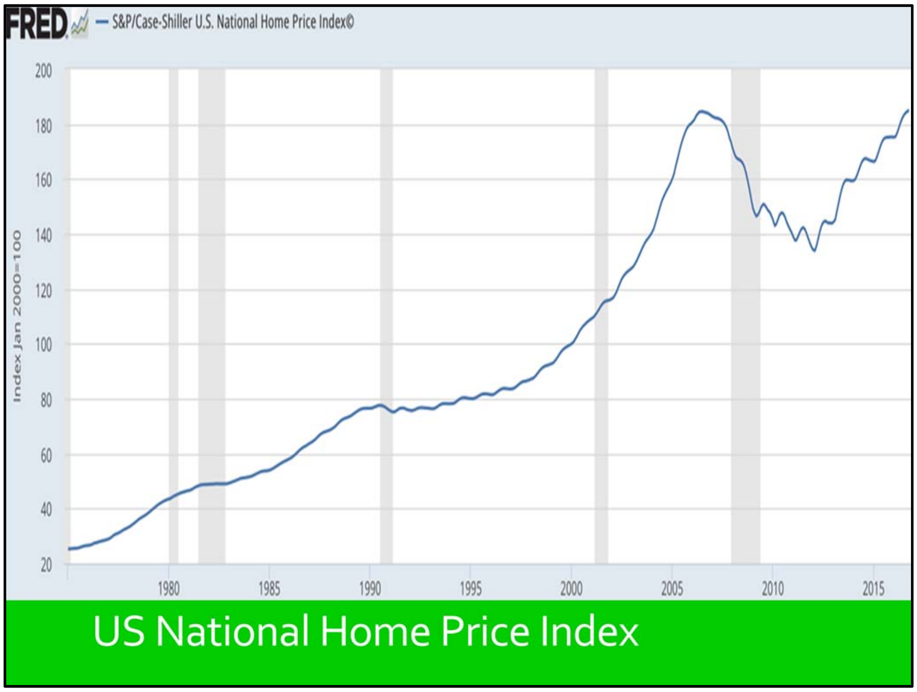
1. CURRENT DATA AND ASSESSMENT
2. PRESIDENTIAL INHERITANCE
3. TECHNOLOGY, TRADE, AND MANUFACTURING

Current Economic Assessment

US economic growth has been modest but steady since the 2008-2009 recession.

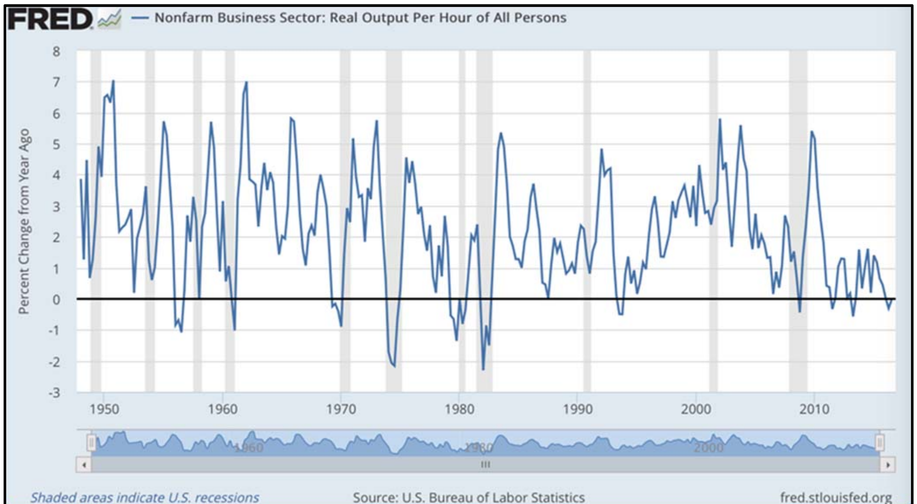


Manufacturing has been strong since 2010.

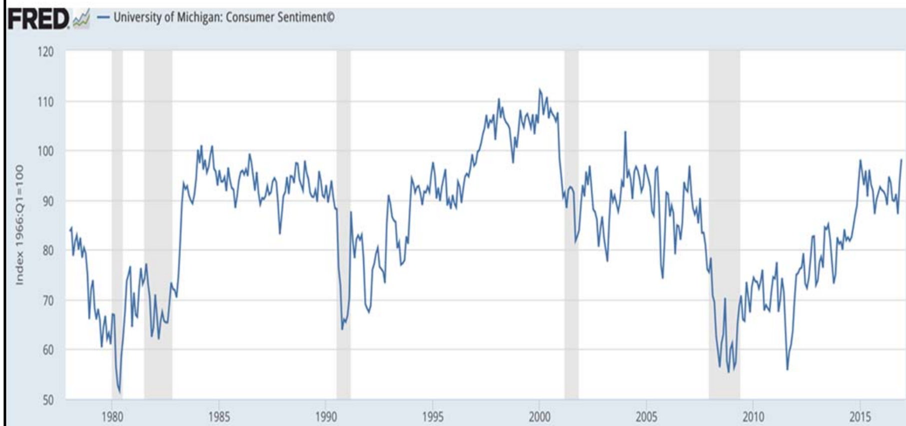


National home prices have finally reached prices as the peak in 2007.

Often business reports will show inflation (consumer price index) without energy and home prices because these two factors make it more volatile. This graph shows inflation that includes energy and home costs. But given historical measures the past few years has seen modest inflation. This has promoted lower interest rates.



Nonfarm: Output Per Hour of All Persons

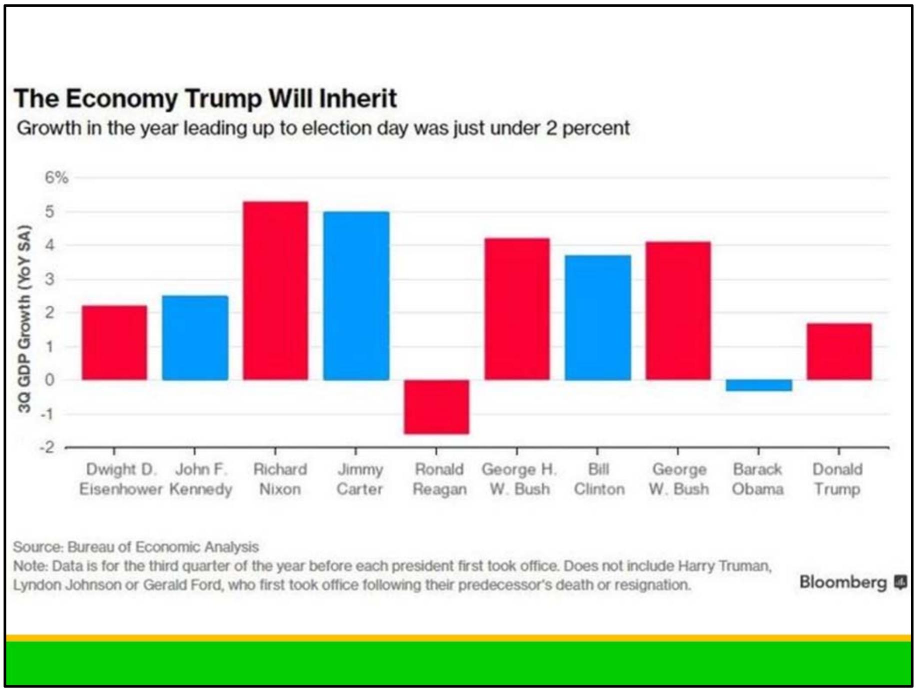


Consumer Sentiment

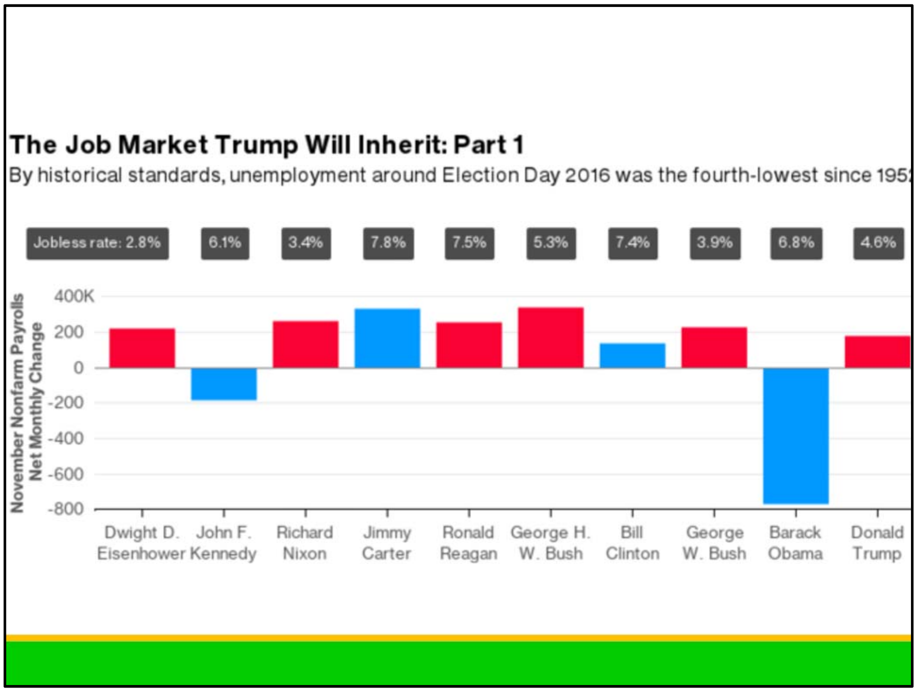
Presidents Have Less Power Over the Economy Than You Might Think. Neil Irwin, NYT, January 17, 2017

Standing on the Shoulders

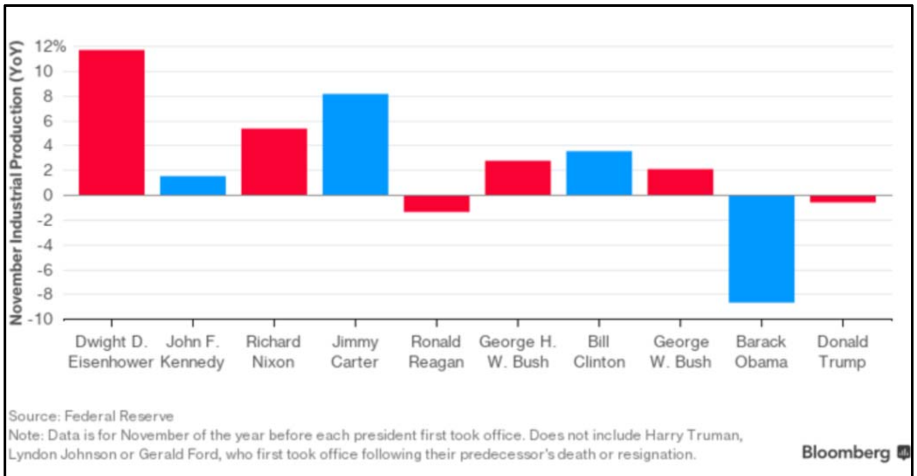
- Policy is important but takes a while to work
- Like a used car, what's the condition when passed on?



Gross domestic product is chugging along, growing at a 1.7 percent pace in the year through the third quarter. That's slower than what most prior administrations faced, and comes against a backdrop of weak global demand, aging demographics and tepid corporate investment. Trump has said he's aiming to achieve 3.5 to 4 percent average annual growth, even as real GDP expansion is projected to average just 2.2 percent next year and 2.3 percent in 2018, according to economists.

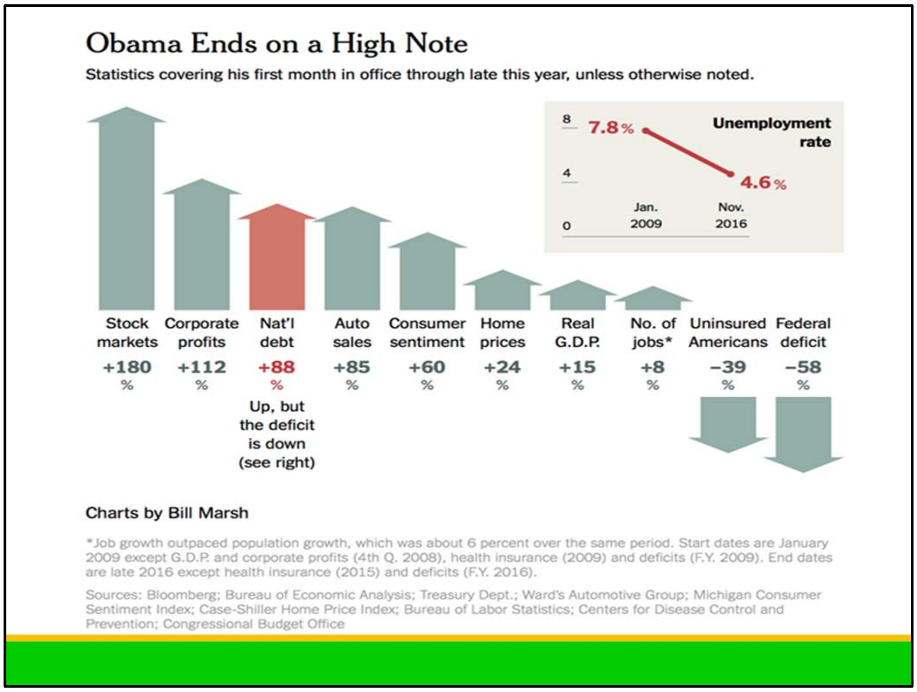


Non-farm payrolls in November came in at 178,000, the fourth-worst situation among the 10 incoming presidents included in this analysis, though still a massive improvement from the nearly 770,000 jobs lost around Election Day 2008. The 4.6 percent jobless rate in the same month puts Trump in a better situation than five of the previous six presidents — the exception being President George W. Bush, who won the election in 2000 when the unemployment rate was under 4 percent.



Industrial Production by President

U.S. industrial production fell by 0.6 percent in November. While not the 8.7 percent contraction Obama had to overcome, reversing this will be one of Trump's biggest challenges.


Obama Ends on a High Note
Statistics covering his first month in office through late this year, unless otherwise noted.
8
7.8%
Unemployment rate
4
4.6%
0
Jan. 2009
Nov. 2016
Stock markets +180%
Corporate profits +112%
Nat'l debt +88%
Up, but the deficit is down (see right)
Auto sales +85%
Consumer sentiment +60%
Home prices +24%
Real G.D.P. +15%
No. of jobs* +8%
Uninsured Americans −39%
Federal deficit −58%
Charts by Bill Marsh
*Job growth outpaced population growth, which was about 6 percent over the same period. Start dates are January 2009 except G.D.P. and corporate profits (4th Q. 2008), health insurance (2009) and deficits (F.Y. 2009). End dates are late 2016 except health insurance (2015) and deficits (F.Y. 2016).
Sources: Bloomberg; Bureau of Economic Analysis; Treasury Dept.; Ward's Automotive Group; Michigan Consumer Sentiment Index; Case-Shiller Home Price Index; Bureau of Labor Statistics; Centers for Disease Control and Prevention; Congressional Budget Office

Trump to Start With a Boost Compared to Obama

Looking across 10 key indicators, Trump will inherit a far healthier economy than the one Obama did

	Period Comparison	What Trump will inherit from Obama	What Obama inherited from Bush
Real GDP (yoy)	3Q '16 vs 3Q '08	1.7%	-0.3%
Gov't Budget Balance (% of GDP)	Sep '16 vs Sep '08	-3.1%	-3.1%
Unemployment Rate	Nov '16 vs Nov '08	4.6%	6.8%
Chg. In Nonfarm Payrolls (mom)	Nov '16 vs Nov '08	178k	-769k
Avg. Hourly Earnings (yoy)	Nov '16 vs Nov '08	2.4%	3.8%
PCE Price Index (yoy)	Nov '16 vs Nov '08	1.4%	1.2%
Industrial Production (yoy)	Nov '16 vs Nov '08	-0.6%	-8.7%
New Housing Starts (saar)	Nov '16 vs Nov '08	1,090	652
Conference Board Leading Indicator	Nov '16 vs Nov '08	0.0	-3
Consumer Confidence Index	Dec '16 vs Dec '08	98.2	60.1

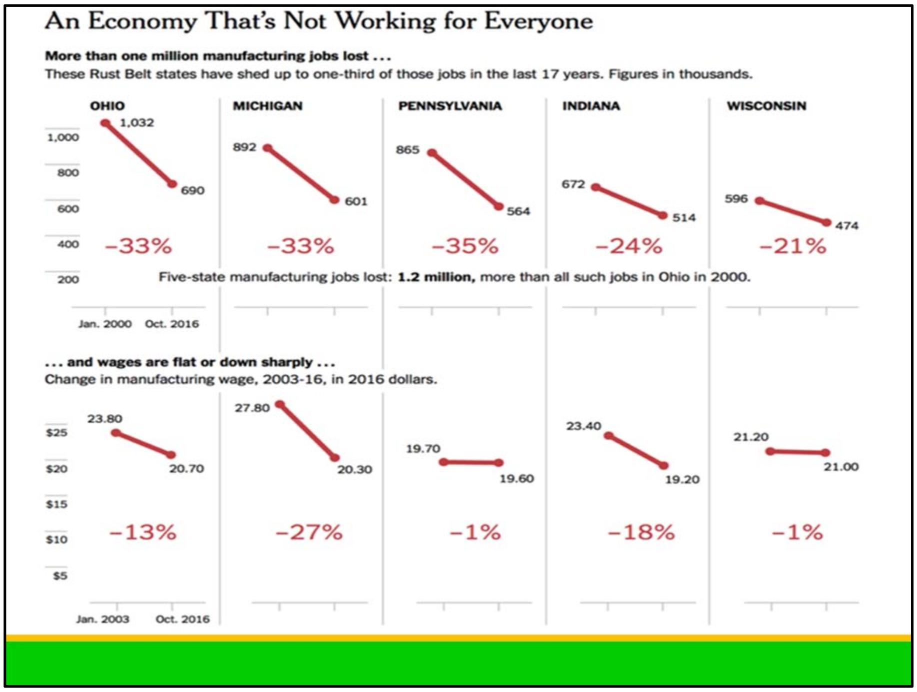
Sources: Bureau of Economic Analysis, U.S. Treasury, Federal Reserve, Conference Board, U.S. Census Bureau, Bureau of Labor Statistics, University of Michigan

Bloomberg

Technology, Trade, & Manufacturing

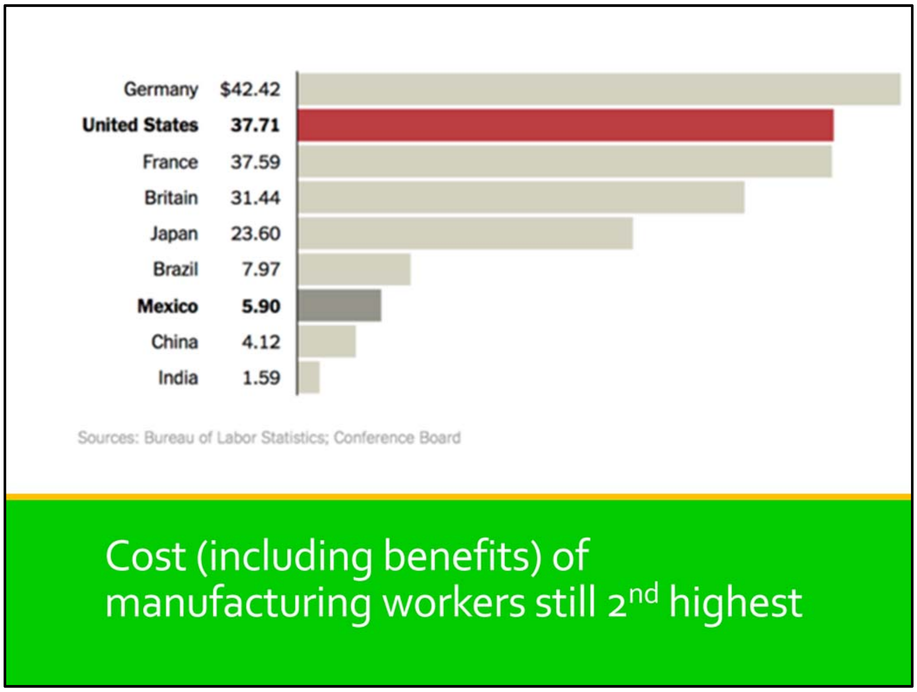
Where have all the blue-color jobs gone?

- Education/training…smarter/faster/stronger
- Education/training…smarter/faster/stronger
- Education/training…smarter/faster/stronger

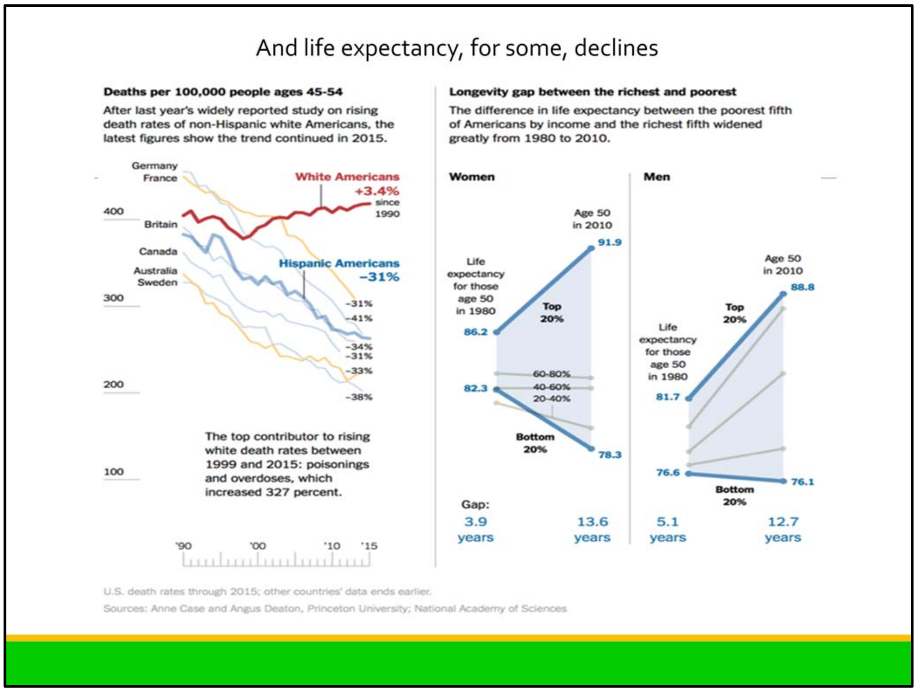


The number of manufacturing jobs are declining and those that remain are paying less.

Manufacturing jobs are not simply being moved overseas; they are being eliminated.

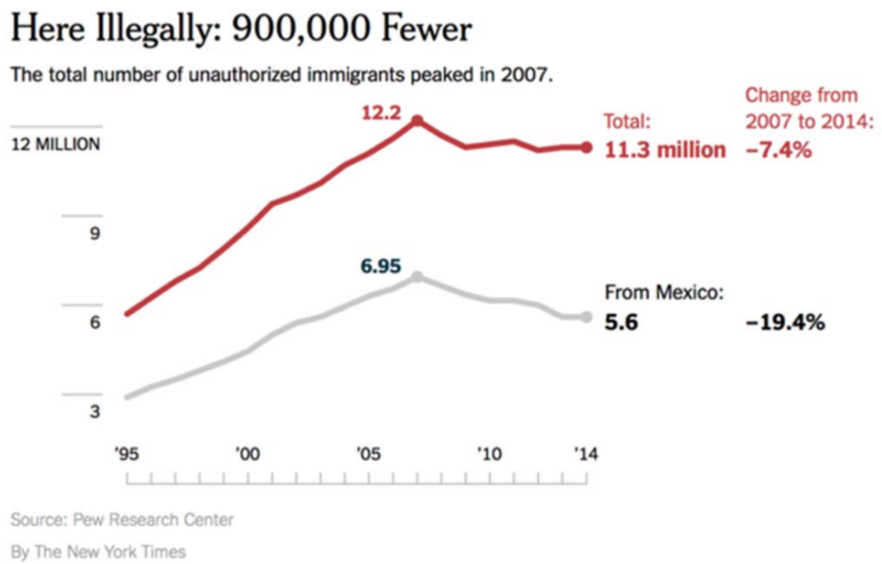


Even with lower wages over the past 17 years manufacturing costs for workers remain one of the highest tin the world.



…and it just keeps getting worse. Lower pay, less job opportunities and they're dying sooner. And the spread between those who earn less and those that die sooner than the wealthier Americans continues to widen.

...It's Not Immigration



LG Hub Robot

What it is: A cute home manager with Amazon's Alexa

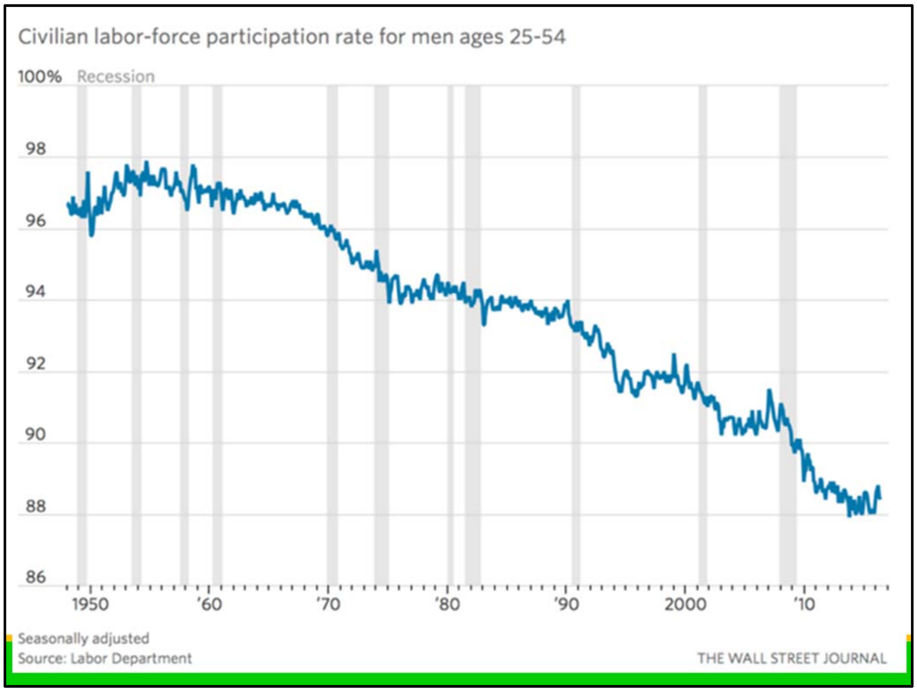
Technology

Technology; the never-ending press of innovation

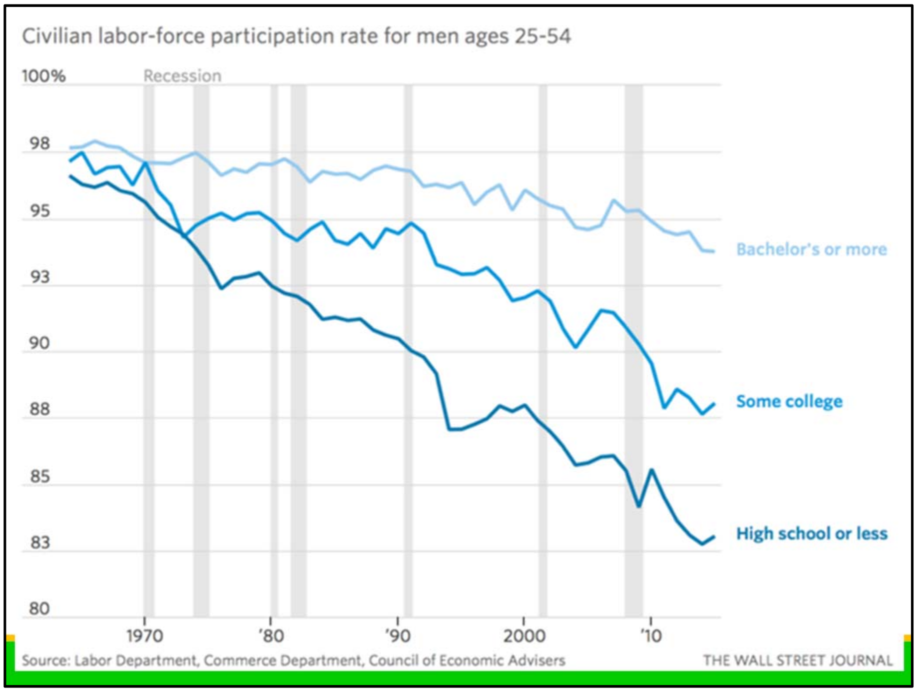
Lego Boost

What it is: Motorized, app-connected bricks that teach coding

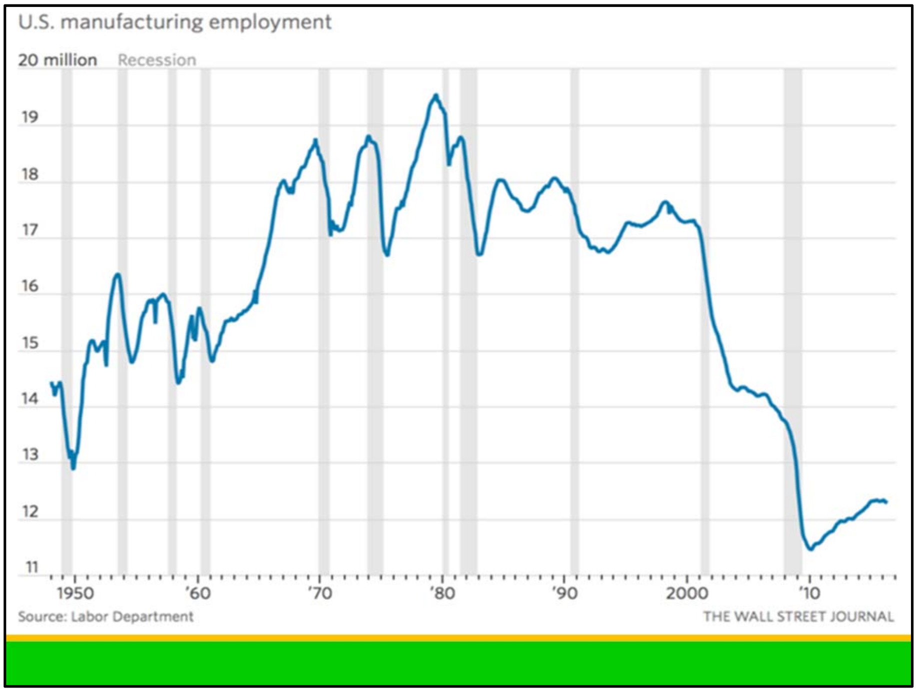
Technology



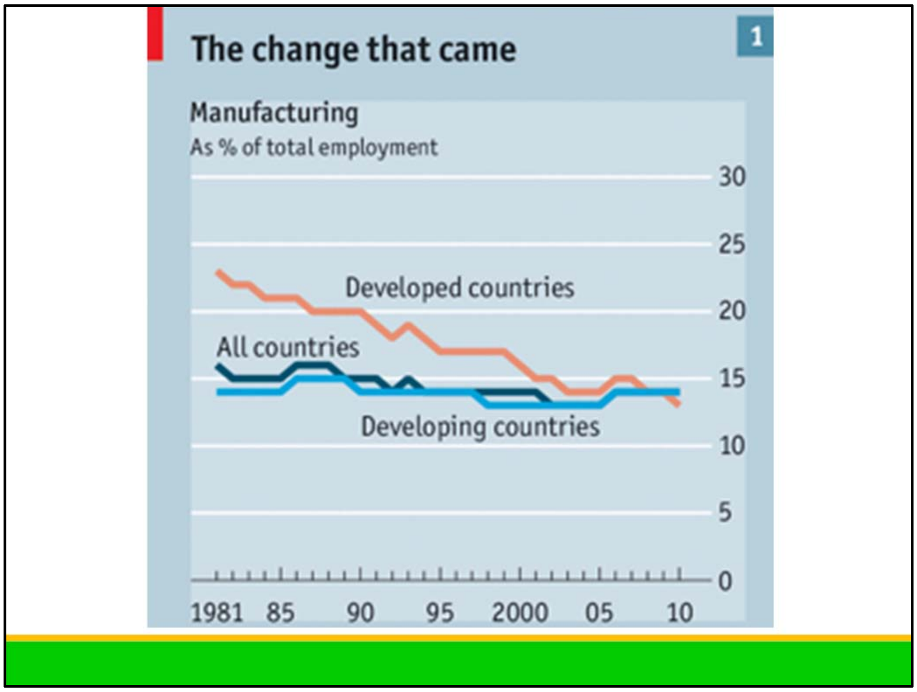
So workers, are getting discouraged and choosing to drop out of the workforce



But the lower your education and therefore your employment opportunities, the greater the likelihood they'll give up.

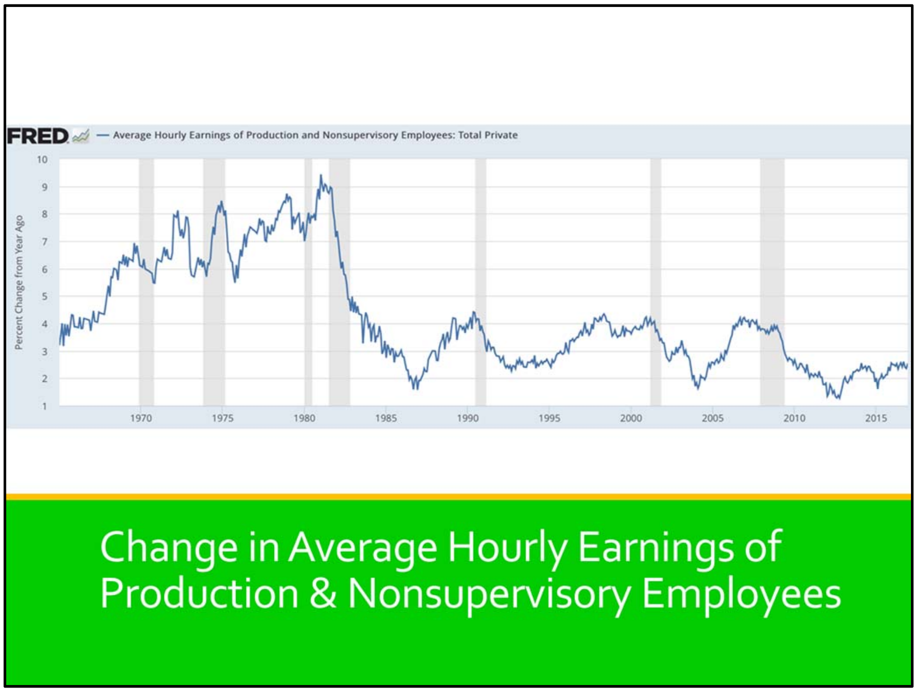


And it's not getting any better. Trump's promise to bring back the sweet, blue-collar jobs is suspect.

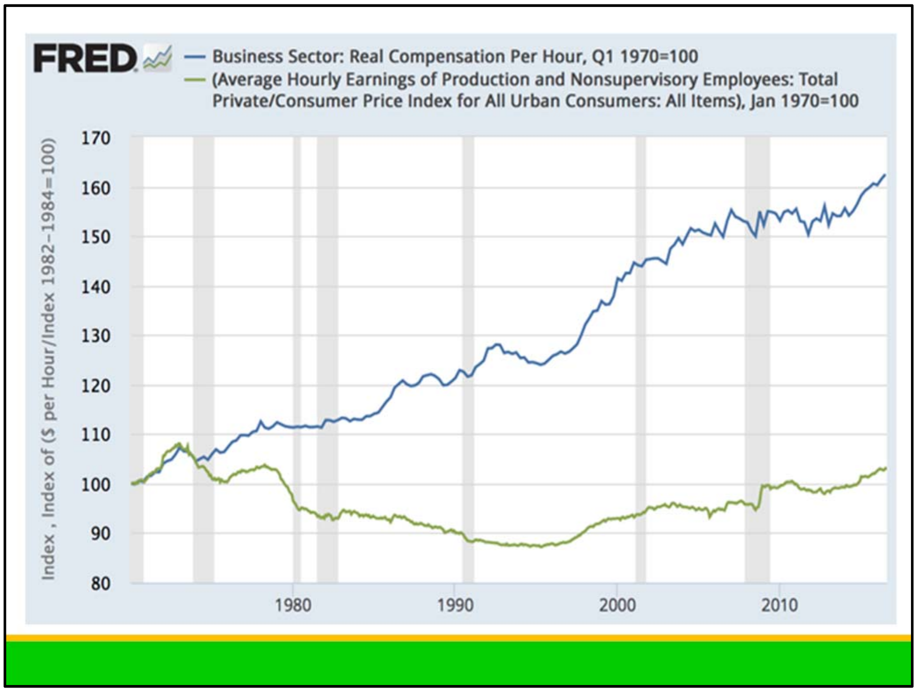


Because it’s happening around the world. All countries are employing less workers in manufacturing

While average hourly earnings are increasing…



…it's only for those that are not line workers or those working in basic industries and services.

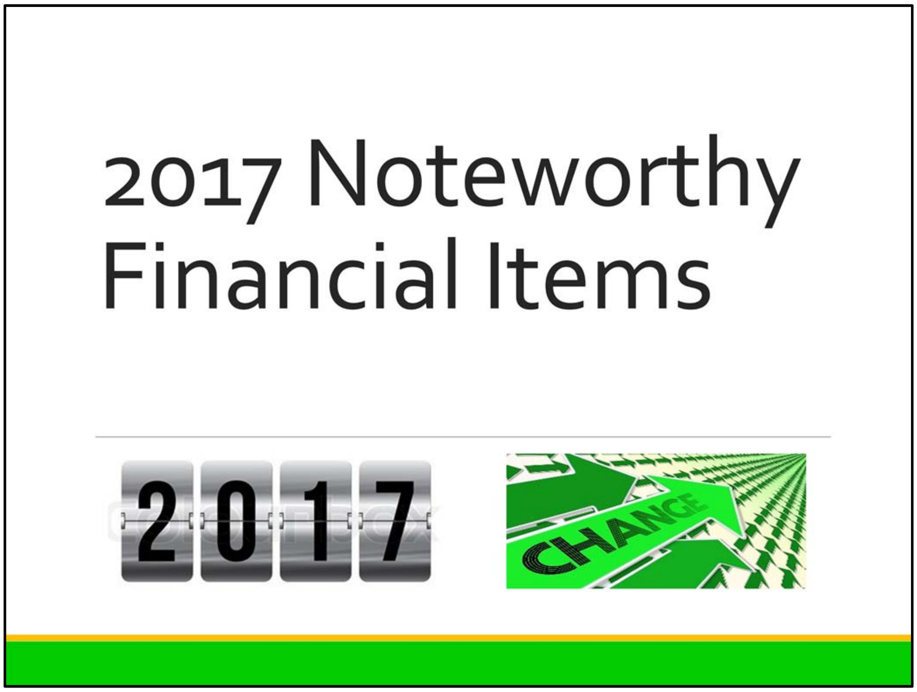


Yes, wages are not rising, but the cost per employee has risen dramatically. In other words, wages are flat but employee total compensation including benefits (primarily health care) results in much higher costs to employers.

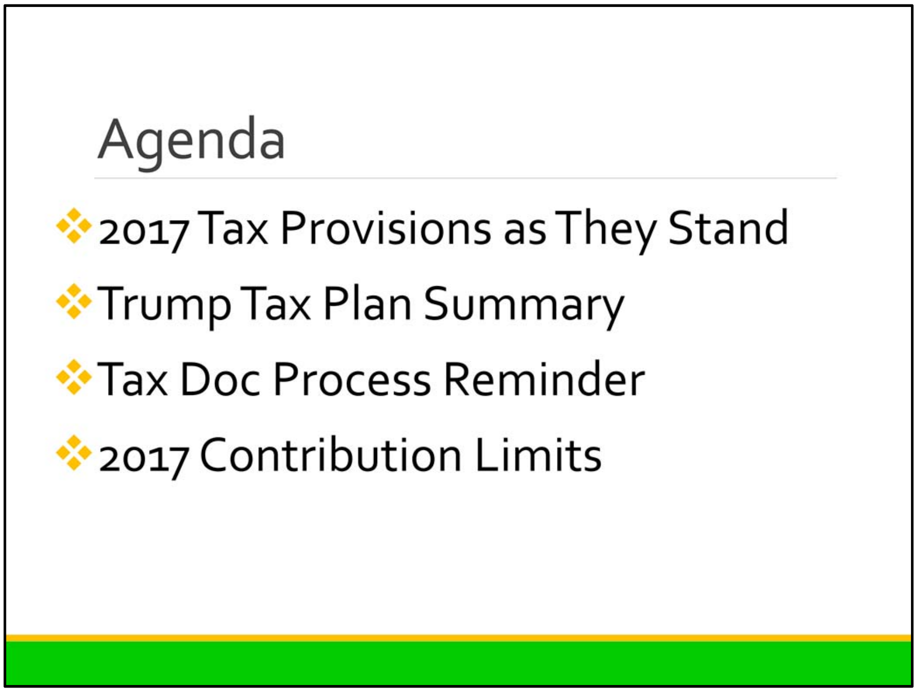
Real compensation growth is significantly higher: the 60% increase looks much better than the 3% increase for real wages.

In Summary

- We cannot go back
- Automation won't cease
- Economic nostalgia will make everyone poorer
- Education and training are necessary
- Rising healthcare costs for all Americans is causing stress on the financial system



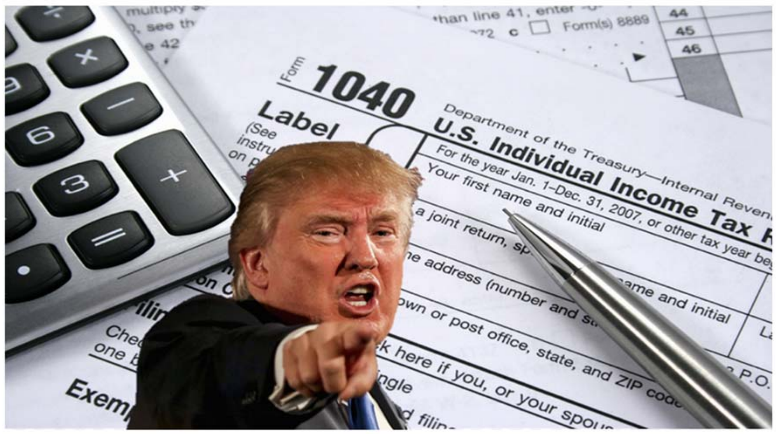
There is one clear victor in the Presidential election and that is those who loathe the current tax law and long for reform. President Trump's tax proposals align nicely with those previously posited by Republican tax writers like Paul Ryan and Kevin Brady, and with the election resulting in a consolidation of power in the hands of the Republican party (House & Senate), it has been said that tax reform within Trump's first 100 days in office is a "priority.“ We expect there will be some big changes to tax policy this year.
But…



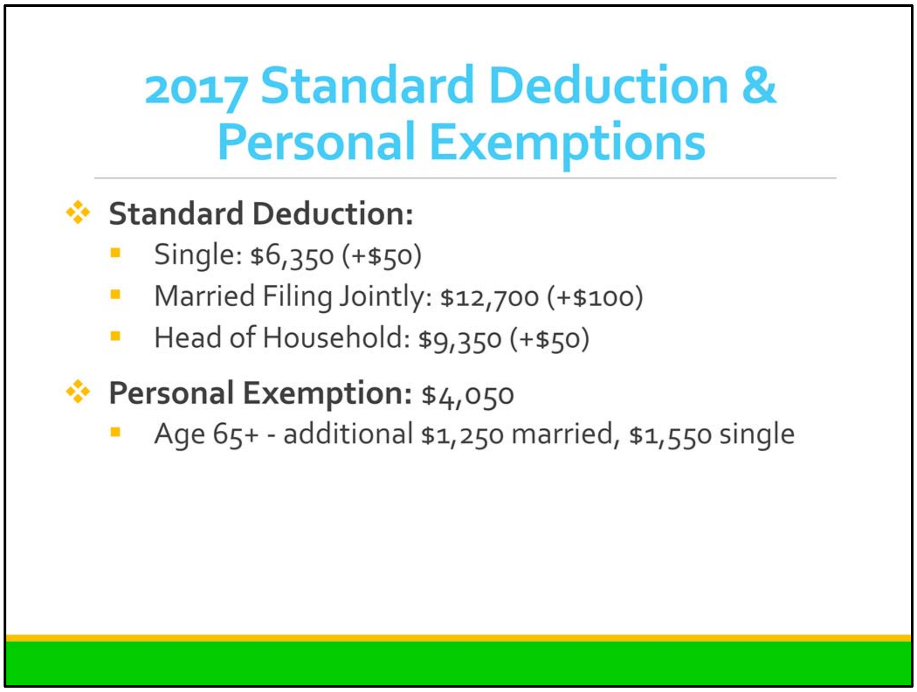
Keep in mind… even though the Trump tax plan has been written about and discussed much, until something is penned into law later in 2017 (or even later), none of it is certain so we need to be careful when tax planning for 2017. I will first cover some of the provisions that are in place at this time and then segue to what's expected to change under Trump's plan. It is quite possible the Trump plan changes could become effective as of Jan 1, 2017 if enacted into law later this year or they could be scheduled to take effect for the 2018 tax year; the verdict is still out.

I'll also spend a few minutes reminding you how the tax document time line works since it's about that time of the year again. And then finish up with a review of the contribution limits for 2017 for the various types of retirement accounts.

Looking forward…
2017 Tax Impacts



- Even though 2016 tax returns aren’t due yet, other than a few last minute items (IRA contributions), there’s a limited amount of tax planning you can do at this point for 2016 now that the calendar has flipped. However, it’s the perfect time to start planning for 2017. Here is a summary of some of the key 2017 provisions AS THEY CURRENTLY STAND that may impact you. Again this is before any changes for President Trump’s proposals.



Itemized deductions get a lot of attention, primarily because there are so many of them, and in many cases they require more calculations. But the tax fact is that around two-thirds of taxpayers each year claim the standard deduction.

- Low inflation again over the last year has meant only a minor increase in the standard deductions for taxpayers in 2017. The standard deduction will rise $50 for single and Head of Household filers and by $100 for MFJ in 2017. (Tax planning- itemized deductions need to exceed these amounts to take advantage of them.)
- The **personal exemption amount** for 2017 is $4,050, the same as 2016. However, the exemption is subject to a phase-out that begins with adjusted gross incomes of $261,500 ($313,800 for married couples filing jointly). It phases out completely at $384,000 ($436,300 for married couples filing jointly). Remember, these new amounts are for the 2017 tax season and returns that are due on April 15, 2018, but the amounts can help you with your tax planning this year.

- For 2017, the **additional standard deduction** amount for the aged or the blind is $1,250. The additional standard deduction amount is increased to $1,550 if the individual is also unmarried and not a surviving spouse.

2017 Tax Changes

2017 Pease & PEP Limitations

Itemized deduction & personal exemption phase outs

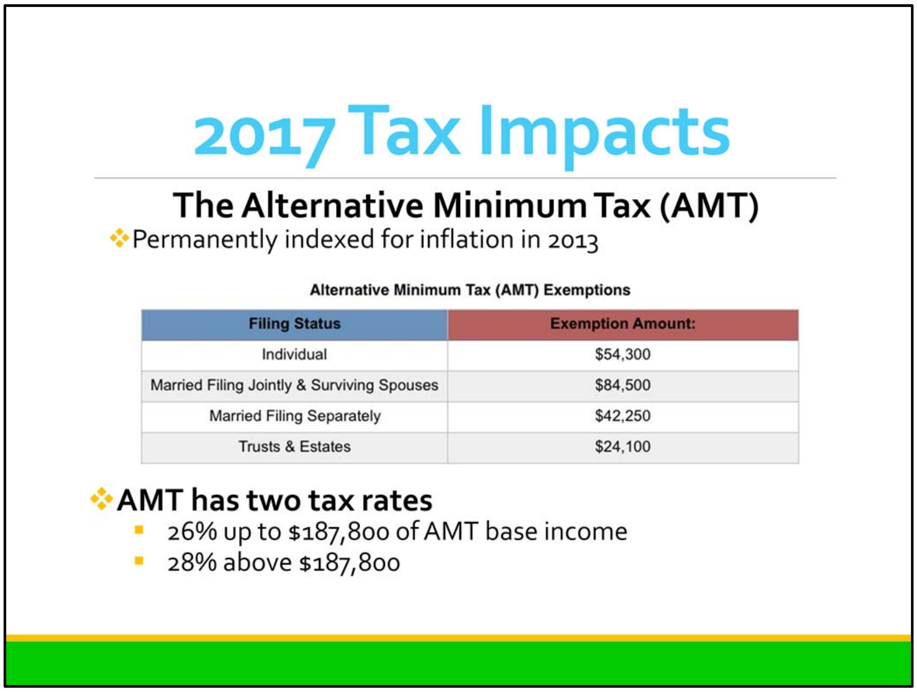
Filing Status	Pease Threshold:
Individual	$261,500
Married Filing Jointly	$313,800
Head of Household	$287,650
Married Filing Separately	$156,900

For those taxpayers who are able to **itemize their deductions**, since the IRS in 2013 reinstated the limitation on itemized deductions the Pease limitations may cap or phase out certain deductions for high income taxpayers. The phase-out levels increased slightly from 2017. These are the Pease thresholds for 2017.

If the Pease limitations apply, the total of all your itemized deductions is reduced by the lesser of:
3% of AGI above the applicable threshold; or
80% of the amount of itemized deductions otherwise allowable for the tax year.

Pease limitations apply to charitable donations, the home mortgage interest deduction, state and local tax deductions and miscellaneous itemized deductions. They do not apply to medical expenses, investment expenses, gambling losses and certain theft and casualty losses.

The limitations for the personal exemption phase-out (PEP) is at the same income levels. The personal exemption is reduced by 2% for each $2,500 MFJ and phases out completely at $384,000 Individual; $436,300 MFJ



- In 2013 as part of the American Taxpayer Relief Act of 2012 (ATRA), the AMT was permanently indexed for inflation rather than "patching" it annually as was done in prior years.
- The exemption amounts mean that this amount of AMT taxable income is not subject to the AMT. Income over these amounts may be subject to AMT. Unlike the ordinary tax rates, the AMT has only two tax brackets of 26% and 28%.
- The following items may trigger an AMT liability:
    - Itemized deductions for state and local taxes, medical expenses, and miscellaneous expenses
    - Mortgage interest on home equity debt
    - Accelerated depreciation
    - Exercising (but not selling) incentive stock options
    - Tax-exempt interest from private activity bonds
    - Passive income or losses
    - Net operating loss deduction
    - Foreign tax credits
    - Investment expenses

2017 Estimated Income Tax Brackets

Rate	Single Filers	Married Joint Filers	Head of Household Filers
10%	$0 to $9,325	$0 to $18,650	$0 to $13,350
15%	$9,325 to $37,950	$18,650 to $75,900	$13,350 to $50,800
25%	$37,950 to $91,900	$75,900 to $153,100	$50,800 to $131,200
28%	$91,900 to $190,650	$153,100 to $233,350	$131,200 to $212,500
33%	$190,650 to $416,700	$233,350 to $416,700	$212,500 to $416,700
35%	$416,700 to $418,400	$416,700 to $470,700	$416,700 to $444,500
39.6%	$418,400+	$470,700+	$444,500+

TaxFoundation.org @TaxFoundation

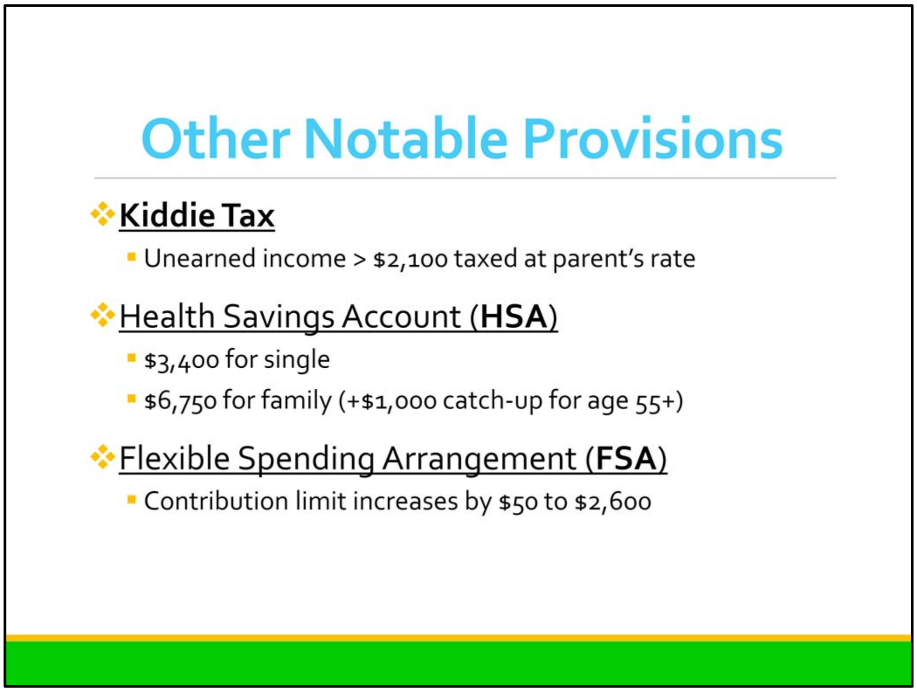
- For reference, here are the 2017 tax brackets. Keep in mind these are Taxable Income amounts, not AGI, so after deductions and exemptions.
- Most of the tax brackets that govern different classes of taxpayers are adjusted for inflation. For 2017, these bracket amounts are rising by less than 1% since inflation was subdued once again in the past year. Similar to last year, and before any Trump tax plan changes go into effect, no new tax brackets in 2017. For example, the highest income tax bracket remains at 39.6%.

2017 Tax Changes

- **Estate and gift tax exclusion**
  - Rises to **$5,490,000** (+$40,000)
  - Tax rate remains unchanged at **40%**
  - Portability of unused exemption to spouse remains

- Annual **gift tax exclusion** holds at $14,000

- The lifetime exemption amount for the gift and estate tax is also tied to inflation, and will rise slightly in 2017. The exemption amount rises to $5.49 million, up $40,000 from 2016. A married couple will now be able to shield just shy of $11 million ($10.98 million) from federal estate and gift taxes. The limit applies to estates of those who pass away in 2017.
- After years of variability and uncertainty, a significant 2013 change under the American Tax Relief Act was that the estate tax laws now have permanence.
- Gift, GST and Estate taxes have been unified.
- Portability- the permanence of portability has a very significant impact on estate planning for most clients, as it reduces the need to use bypass trusts for all but the wealthiest of families or those with potential state estate tax liability or other non-tax-related reasons to use trusts.
- **Gift tax** unchanged again in 2017 at $14,000. 2013 was last bump since 2009 when the exclusion was $13,000.

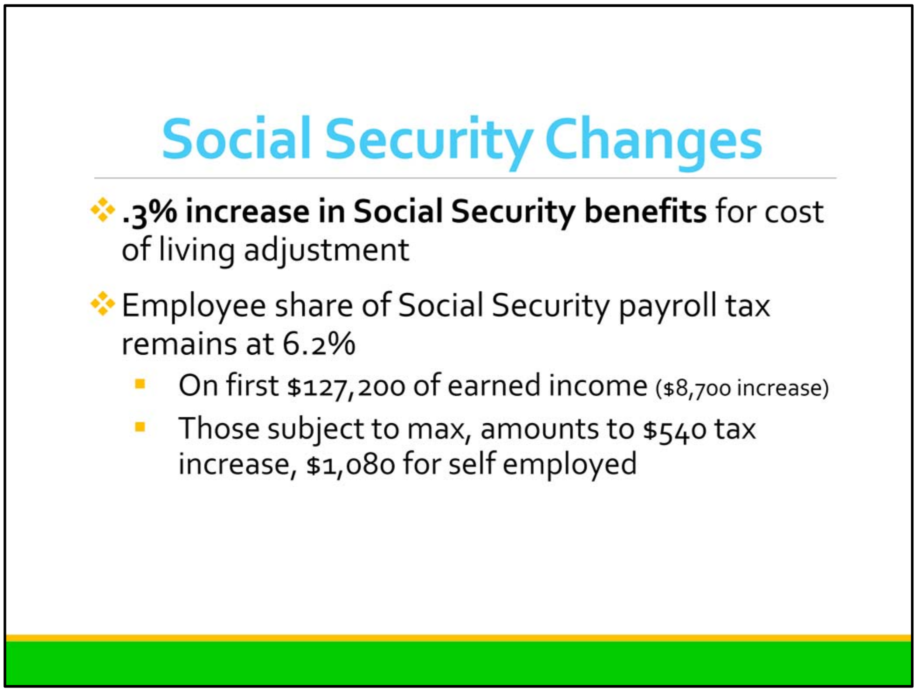


- One thing to watch out for if you're making gifts to younger members of the family is the federal kiddie tax. The **kiddie tax,** which covers income for children under the age of 19 and college students under the age of 24, puts investment income (net unearned income) above small amounts into the parents' tax bracket. For 2017, the kid pays no tax on the first $1,050 of unearned income and income in excess of $2,100 is taxed at the parent's tax rate. No change in rates from 2016.
- **Health savings accounts (HSA)-** lets taxpayers with high-deductible health plans set money aside on a pretax basis to cover the costs of their health care. For 2017, the contribution limit for individual policies increased by $50 to $3,400 but the maximum contribution for family policies is unchanged at $6,750. A catch-up contribution of $1,000 for those 55 or older will continue to apply.
- **High Deductible Health Plans (HDHP)**- 2017 min deductible limits- $1,300 indi, $2,600 family (no change from 2016 & 2015)
- Annual contributions to employer-sponsored healthcare **flexible spending arrangements (FSA)-** a tax-advantaged account that allows you put money in to pay for qualified out-of-pocket health care expenses- increases to $2,600 for 2017 for qualified health care expenses.

Other Notable Provisions

- 10% AGI limit for **medical expense deduction** for all taxpayers, including over age 65
- Business mileage deduction
  - 53.5c/mile (- ½ cent)

- Keep in mind that the floor for medical expenses in 2017 is 10% of adjusted gross income (AGI) for all taxpayers. Taxpayers over the age of 65 could use the 7.5% floor through 2016. In 2017, the favored tax rate disappears and **all taxpayers are subject to the 10% floor.** Keep in mind that the floor for medical expenses remains at 10% of adjusted gross income (AGI) for those under age 65.
- The downside of low gas prices is that business mileage rates—how much you can deduct if you use a car for business purposes—dropped another ½ cent after dropping 3.5c for 2016



- Due to only a slight increase in the consumer price index, the monthly Social Security and Supplemental Security Income (SSI) benefits increased by .3% in 2017 for the Cost of Living Adjustment (COLA). This is the smallest increase in history after there was no increase in 2016. (2016= unch, 15=1.7%, 14=1.5%, 13=1.7%, 12=3.6%).
- All clients with earned income (whether as wages or via self employment)- payroll tax obligation remains @ 6.2% (rose by 2% in 2013) up to the $127,200 **wage base.** The wage base is the maximum amount of income that can be taxed for Social Security purposes. It seems the absence of an increase in the wage base in 2016 was made up for with a large increase in 2017 (7.3% increase!).
- For workers subject to the taxable maximum, that $8,700 increase in taxable wage income amounts to a tax increase of $539.40. For self-employed workers who must pay both the employee and employer share, this amounts to a tax increase of $1,078.80 for 2017.
- What about the Affordable Care Act (aka Obamacare)? The President-Elect has vowed to repeal it and he may have sufficient support in Congress to do so, but for now, the ACA remains the law. People who avoided signing up for health insurance in anticipation of changes are still subject to the lack-of-coverage penalty. The penalty for the 2016 tax year increased to either 2.5% of household AGI or a maximum of $2,085 ($695 per adult, $347.50 per child). For the 2017 tax year, the percentage stays the same, but the per-person fee will be inflation-adjusted.

Education Related Items

- **<u>Change to FAFSA filing rules</u>**
  - 2015 tax return used for 2017 school year
  - May file as early as Oct 1, 2016
- **<u>American Opportunity Tax Credit</u>**
  - Credit remains at **$2,500**
  - Income threshold unchanged - $80,000 S/$160,000 MFJ (phases-out)
- **<u>Lifetime Learning Credit</u>**
  - Up to $2,000 credit
  - Income threshold: $55,000 S/$111,000 MFG (phases-out)

- Important change to financial aid calendar as it relates to filing Free Application for Federal Student Aid (FAFSA)- for the 2017-18 school year, now able to file FAFSA starting Oct 1st 2016 instead of having to wait until Jan 1st 2017.
- In 2009 under the American Recovery and Reinvestment Act, the Hope Scholarship Credit was changed to become the **American Opportunity Tax Credit (AOTC)**, expanding the credit to $2,500/year, allowing it for up to four years of post-secondary education. It was scheduled to lapse (and revert back to the 'old' Hope Scholarship Credit) at the end of 2017. *The new PATH tax extenders legislation makes the American Opportunity Tax Credit permanent.*
- Amer. Opportunity Tax Credit for 2017 will remain an amount equal to 100% of qualified tuition and related expenses not in excess of $2,000 plus 25% of those expenses in excess of $2,000 but not in excess of $4,000. The maximum credit allowable for 2017 is $2,500. 2017 income restrictions also escape adjustment for inflation- phaseout begins at MAGI in excess of $80,000 ($160,000 for a joint return).
- **Lifetime Learning Credit (LLC)-** This credit allows for a 20% tax credit for first $10,000 of qualified tuition and expenses to be fully creditable against the taxpayer's total tax liability. The maximum amount of the credit is $2000 per household (*not* per student).
- As with the AOTC, income restrictions apply to the LLC. For 2017, phaseout begins at $111,000 MAGI for joint filers & $55,000 (no change from 2016) for individuals.
- May not take both AOTC & Lifetime Learning Credit for the same student in the same year. Unlike the AOTC, <u>you need not be in the first four years of undergraduate classes</u> to claim the LLC. Even if you took only one class, you may take advantage of the LLC.
- **Tuition tax deduction-** you cannot claim the Tuition and Fees Deduction in the same tax year you claim either the American Opportunity Tax Credit or the Lifetime Learning credit. You must choose between taking an education tax credit or taking the deduction for tuition and fees. Most tax software automatically compares the tax result for you to determine the your best tax savings.

Trump Income Tax Plan

- From 7 to 3 brackets

Table 1. Individual Income Tax Brackets Under the Trump Plan

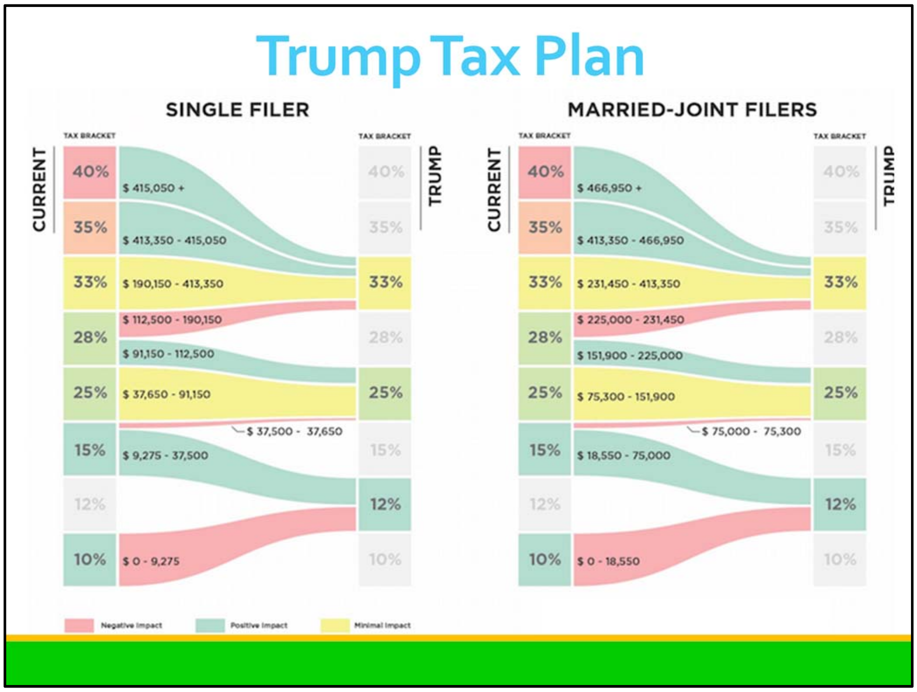
Ordinary Income Rate	Capital Gains Rate	Single Filers	Married Joint Filers
12%	0%	$0 to $37,500	$0 to $75,000
25%	15%	$37,500 to $112,500	$75,000 to $225,000
33%	20%	$112,500+	$225,000+

According to the Tax Policy Center, Trump's plan would cut taxes by $6.2 trillion over a decade -- reducing taxes for taxpayers in all income groups.

If President Trump's tax plan becomes law, the rules for individual taxpayers will change dramatically this year. Of course, the details could easily change, and it's an open question as to when any changes would take effect. But if they do, the effect will be dramatic. The biggest change with the Trump plan would be a reduction in the top tax bracket, from 39.6 percent to 33 percent — a 6.6-point cut.

Generally, the Trump plan would reduce taxes. If you are in the 35% or 39.6% bracket today, your taxes would drop under the Trump tax plan, but not everyone would pay less. A few in the middle-income range would pay a *higher* rate. In addition, Trump has proposed cutting the corporate tax rate, the capital gains tax and the rate on so-called "pass-through businesses."

Paying for these tax reductions will be costly. Revenue available to operate federal programs would shrink by between $4.4 trillion and $5.9 trillion over 10 years, the Tax Foundation says. Trump has said he plans to cut spending by $1.2 trillion in the next decade. But, as noted, he plans to cut revenue by even more. If nothing else is done to address the shortfall, the national debt will grow by roughly $5.3 trillion by 2026, according to an estimate by the nonpartisan **Committee for a Responsible Federal Budget**.



Here’s an excellent graphic that compares current tax rates in effect to what the Trump plan proposes.

For two groups of taxpayers, rates would rise:

Those now in the upper echelon of the 28-percent bracket would be pushed into the 33-percent tax bracket.

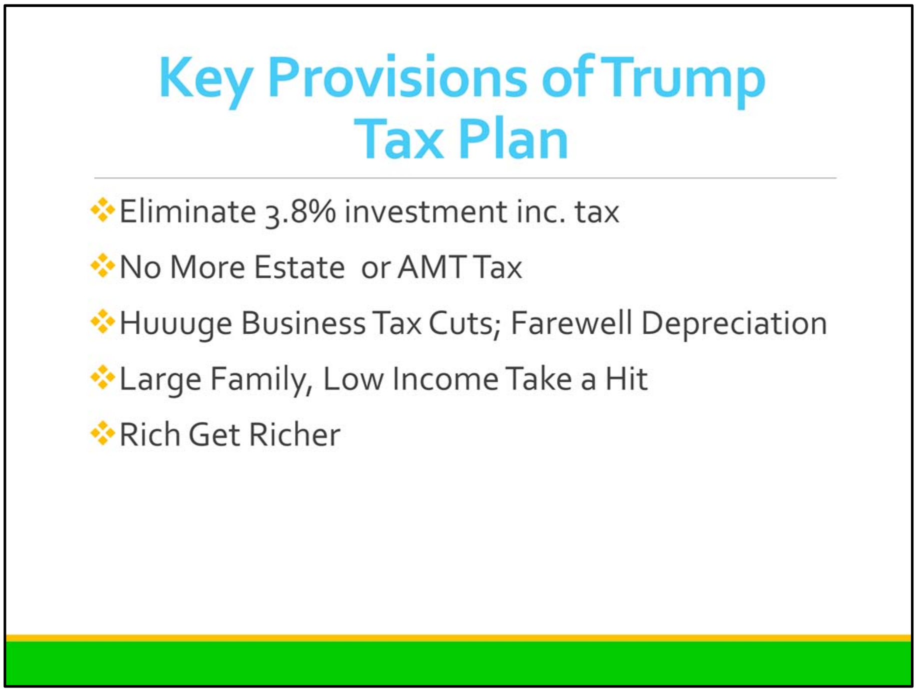
Those now at the very lowest end, in the 10-percent bracket, would face an increase, to 12 percent.

Key Provisions of Trump Tax Plan

- Increased Standard Deduction
  - $15,000/$30,000 single/MFJ
- Personal Exemption eliminated
- Itemized Deductions capped
  - $100k/$200k single/MFJ

Increased Standard Deduction, Personal Exemption Eliminated, Itemized Deductions Limited

Trump wants to more than double the standard deduction to $15,000 for singles and $30,000 for married taxpayers, from the current levels of $6,350 and $12,700, respectively. Because of this increase, the personal exemption would be eliminated, as would the head of household tax filing status. Itemized deductions would be capped at $100,000 for single filers or $200,000 for joint filers.



3.8% Investment Income Tax Eliminated
To promote small business investment Trump would eliminate the 3.8% tax on net investment income on people with incomes (MAGI) of over $200,000 for single and $250,000 for married filers. The tax rates on long-term capital gains would be kept at the current 0%, 15% and 20% rates. In a hit to hedge fund managers, there is also a proposal to taxing income from carried interest at ordinary income tax rates.

No More Estate Tax
Under current law, if you die with an estate valued in excess of $5.49 million, you pay 40% tax on the excess value. Any appreciation inherent in the assets that make up your estate, however, is untaxed at your death; rather, the beneficiaries of your estate take the assets with a tax-free, "stepped-up" basis. Donald Trump's proposal would eliminate the estate tax, making the next four years as good a time as any to die. The opportunity to pass a valuable estate on to your heirs tax-free is a rare one; but understand, according to Trump's proposal, it won't be *completely* without tax. His plan would tax the appreciation inherent in the assets of an estate valued in excess of $10 million, but only when the beneficiary sells the assets; the assets won't be taxed immediately upon death.
The Trump plan also proposes a full repeal of the alternative minimum tax (AMT). Eliminating the AMT and estate tax would stand to benefit higher income earners the most & would lead to an even greater concentration of wealth in the US.

Huuuge Business Tax Cuts; Farewell Depreciation

Corporations currently pay tax at a 35% rate which President Trump likes to point out is the highest rate in the industrialized world (It's not). His proposal would cut the rate to 15%, while eliminating most business deductions. Businesses would be permitted, however, to immediately deduct the cost of asset acquisitions, a monumental divergence from current law, where businesses have to depreciate the cost of purchased assets over a number of years, greatly reducing the tax benefits. Those businesses that fully deduct asset costs will not be permitted to deduct interest expense on any borrowing, a provision that's intended to reduce corporate dependence on debt.

The bigger changes under the Trump plan come in the treatment of so-called "**pass through" taxation**. Under current law, S corporations and partnerships do not pay entity-level tax; instead, the income is allocated to the owners, who pay the corresponding tax at the individual level, based on the applicable individual rates laid out prior.

Trump, however, would provide a **unified business rate of 15%,** meaning not only would corporations pay tax at that rate, but *all business income* -- even the income earned by an individual from an S corporation, partnership, or sole-proprietorship and reported on the individual's tax return -- **will be subject to the same 15% rate.** This means that a taxpayer earning business income would experience a drop in top tax rate from 39.6% to 15% under the Trump plan! It also means that under the Trump plan, the difference in top tax rate between paid as an employee and as an independent contractor (15%) is extremely significant. An employee may want to be reclassified as a consultant to pocket the tax savings (up to 24.6%)!

Certain Low-Income Taxpayers Take a Hit

Every taxpayer gets to claim on their tax return the *greater of* itemized deductions or the standard deduction. The standard deduction currently sits at $12,700 (married, half that if single). In addition, each taxpayer may claim a $4,050 personal exemption for themselves, their spouse, and any dependents. Trump's proposal would increase the standard deduction from $12,700 to $30,000 ($15,000 if single), and eliminate personal exemptions.

Ex. A family of five that currently claims the standard deduction will actually *lose* deductions under the Trump plan: under current law, they would be entitled to a $12,700 standard deduction and $20,250 of personal exemptions, for a total tax benefit of $32,950. Under the Trump plan, that would be replaced with a $30,000 standard deduction and no personal exemptions. In addition the bottom rate of 10% will be replaced with a new bottom rate of 12%. Combine this with the lost deductions under the Trump plan and according to a study performed by Lily Batchelor at NYU, you have a perfect storm in which approximately 7.8 million low-income large families will experience increased tax bills under the Trump plan.

The Rich Get Richer

According to the Tax Policy Center, the totality of the Trump plan will reduce federal tax revenue by $6.2 trillion over the next ten years. Of those tax cuts, nearly 47% will go to the richest 1%. To put it into dollar terms, those earning less than $48,400 will experience an annual tax cut of less than $400, while those earning in excess of $700,000 will walk away

with an average of an extra $215,000 per year. The reasons for the disparity are fairly obvious: when a tax plan reduces the top rate from 39.6% to 33%, while also cutting business tax rates from 39.6% to 15%, those at the high end of the income scale will walk away huge winners, regardless of any offsets found in the plan in the form of limited itemized deductions. Those making more than $700,000 will benefit far more from a 6.6% reduction in income tax rates -- and a 24.6% reduction in business rates -- than they can ever be harmed in the form of forfeited itemized deductions.
Of course, this isn't inherently *bad;* some economists will argue that by putting more money in the hands of business owners and decision makers, businesses will expand, hire more people, pay higher wages, etc... with more income thus trickling down to lower income levels. Where you stand on that position is up to you.

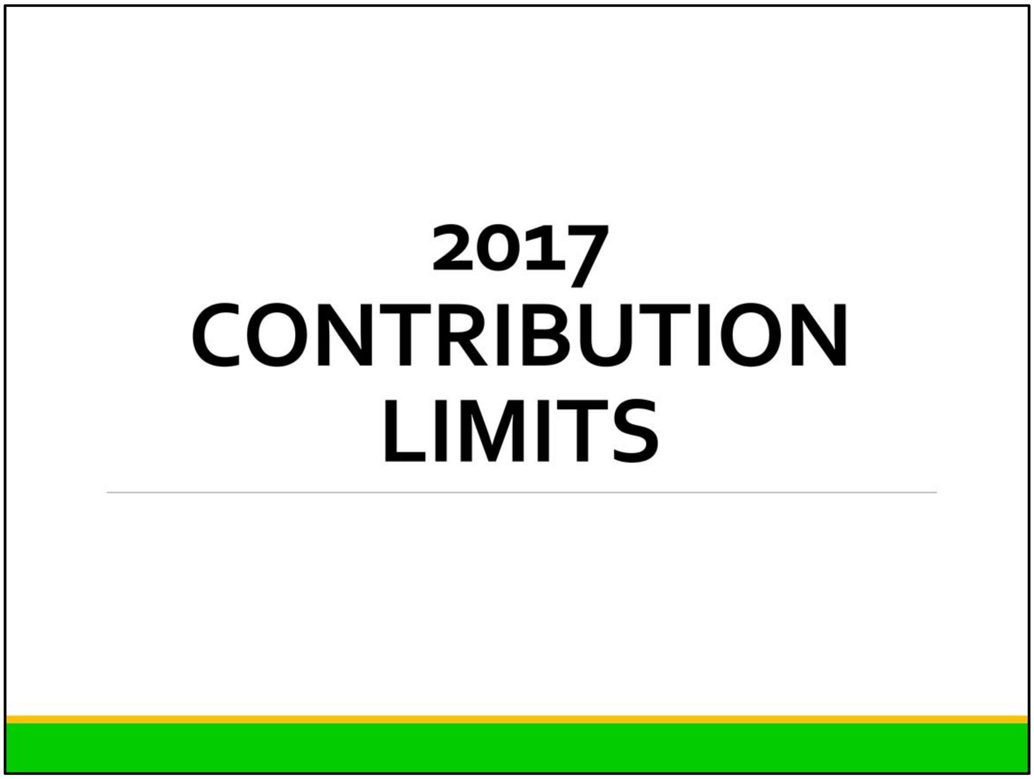
So that's the best guesses as of now. Things will get clearer fairly quickly – with the new President's budget coming forward in February and more importantly, the Congressional budget resolution and the framework for reconciliation. The tax writing committees will have their pencils sharpened and we should have a good idea of the future of taxes by Spring.

For the next four years, Congressional gridlock should no longer be an issue. We've got a Republican President, and Republican control of both the House and Senate. We've got a Republican Speaker of the House in Paul Ryan who considers himself a tax wonk. There has been much talk about the need for tax reform -- a move to a more simple, fair, manageable system free of loopholes and special interests. There is nothing stopping the GOP from doing just that over the next four years. Let's see what happens; interesting times for sure!

Tax Doc Process Reminder

- Consolidated Form 1099 sent by custodians around 2/1
- 1099's may be corrected!
- K-1's vary depending on entity, could be mid-March
- If waiting on a tax doc:
  - Provide CPA what you have to date
  - Let them know final doc(s) will follow
  - Don't file return until you receive all docs!

Here's a quick run down on the tax document timeline process. Berkeley will be posting your realized gain/loss reports and annual management fee summary statements to your portal in within the next couple weeks.
The account custodians (TD Ameritrade & Schwab) send out the first batch of Consolidated 1099s around Feb 1st. Keep in mind those can be corrected with revisions being mailed out into March.
If you own a K-1 issuing entity the timing on when those are sent various but most are out by mid-March.
So if you're eager to turn your tax documents into your accountant just be sure to let them know your 1099 could be revised. Let them know if you're waiting on any K-1s. They can then begin processing your return. Just be sure they're aware not to file your return until they've received all documents for you.



Retirement savings contribution limits. Talking about IRAs, Roth IRAs, 401ks…

Contribution limits to 401(k) plans, IRAs, and flexible spending arrangements are all staying the same in 2017 as they were in 2016, reflecting the minimal amount of inflation in the economy.

The Treasury Department has announced inflation-adjusted figures for retirement account savings for 2017, and there are tweaks that help savers. Much stays the same, but there are increases in income phase-outs for IRA contributors, to the adjusted gross income limits and to the overall defined contribution plan limit—up to $54,000--a boost for self-employed and small business owners and workers who have the option of stuffing their retirement nest egg with aftertax dollars. Yet with inflation lurking and retirement savings falling short, workers and their spouses should eke out every last opportunity for tax-advantaged savings.

Retirement Account Limits

- 401(k), 403(b), 457, TSP
  - Max employee contribution holds at $18,000
- "Catch-up" remains at $6,000 for 50+
- Total max contribution - $54,000

- 410k, 403b & TSP employee contribution limits unchanged at $18,000.
- Also the allowable "catch-up" contribution limit unchanged at $6,000 for age 50 and over, for a max of $24,000.
- The total plan contribution limit (employee + employer) rises by $1,000 to $54,000.
- Tell your payroll dept to adjust your contributions so that you reach the maximum by the end 2017.

Retirement Account Limits

- IRA & Roth contribution limits unchanged again at $5,500 ($6,500 for those age 50+)
- **IRA Deduction**
  - No income limit if no work retirement plan
- **IRA deduction phase out**
  - $62,000 S, $99,000 MFJ with work retirement plan (+$1,000)
- **Roth or spouse w/ work retirement plan** IRA phase out
  - Single = $118,000 (+$1K), MFJ = $186,000 (+$2K)
- **Spousal Contribution**

The $5,500 limit on annual contributions to IRAs and Roths remains the same for 2017, the fifth year in a row! The catch-up contribution limit, which is not subject to inflation adjustments, remains at $1,000. Remember that 2015 IRA contributions can be made until April 18th, 2016. (2013 changes were 1st since 2008. For the years 2008 through 2012, IRA contributions were capped at $5,000.)

In 2017, the deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between $62,000 and $72,000, a $1,000 increase. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is $99,000 to $119,000, also up $1,000.

For an IRA contributor who is **not** covered by a workplace retirement plan but is married to someone who is covered, the deduction is phased out if the couple's income is between $186,000 and $196,000 in 2017, an increase of $2,000 from 2016.

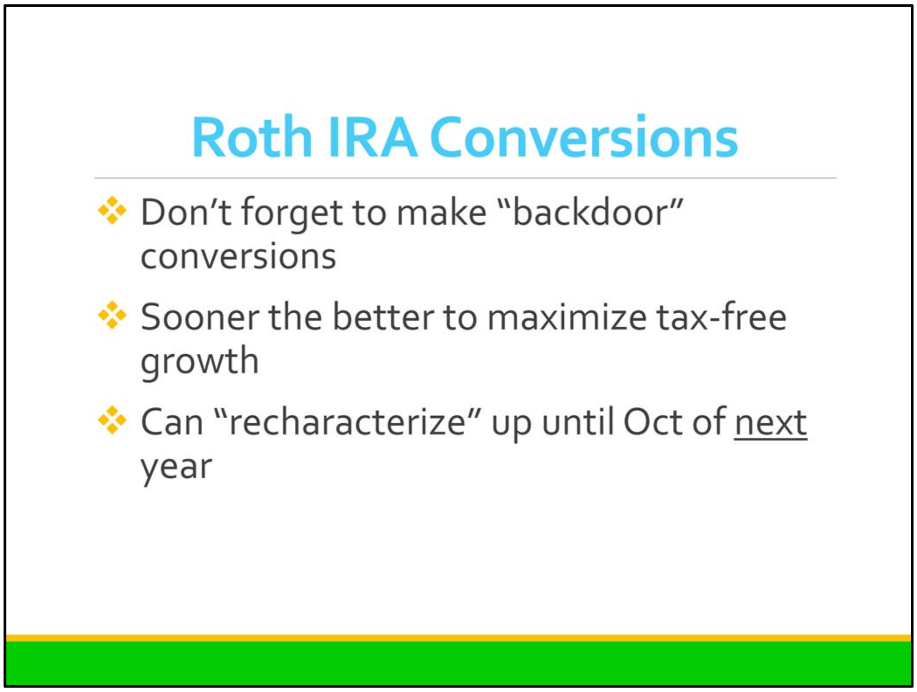
The same adjustment helps Roth IRA savers. In 2017, the AGI phase-out range for taxpayers making contributions to a Roth IRA is $186,000 to $196,000 for married couples filing jointly, up $2,000 from 2016. For singles and heads of household, the income phase-out range is $118,000 to $133,000, up $1,000 from 2016.

Spousal contribution- If you file a joint return, you and your spouse can each make IRA contributions even if only one of you has taxable compensation. The amount of your combined contributions can't be more than the taxable compensation reported on your joint return. It doesn't matter which spouse earned the compensation.

Retirement Account Limits

- **SEP IRA** & Individual 401(k) limits increase slightly:
  - Contribution limit $54,000
  - Compensation limit $270,000
- **SIMPLE IRA** limits unchanged**:**
  - Contribution limit $12,500
  - $3,000 "Catch-up" contribution (age 50+)
  - Compensation limit $270,000

For 2017,
SEP IRA & Individual 401K (Solo 401k)- Contribution limit increases by $1,000 to $54,000 based on compensation up to $270,000, an increase of $5,000.
SIMPLE IRA- also unchanged at $12,500 & $15,500 with "catch-up", based on compensation up to $270,000, a $5,000 increase



If you earn too much to contribute to a Roth IRA, you can make a nondeductible IRA contribution and immediately convert it to a Roth IRA as Congress lifted any income restrictions for Roth IRA conversions. To learn more about the backdoor Roth, talk to us for details.

Keep in mind you can convert your IRA at any point throughout the year, but many folks wait until the last minute. Similar to procrastinating on retirement account contributions, by waiting until December to convert, you **miss out on 11 months of potential tax-free growth**. The goal is still to get the money inside a Roth IRA, and the sooner you do that, the longer it will grow tax-free.

If you're worried about converting in January because you don't have a clear enough picture of what your taxes for the year will look like, fear not. You can undo your conversion. The technical term for this is a "**recharacterization**." The tax code allows you to recharacterize all or a portion of your Roth conversion up until October of the next year; Oct 2018 in this case. The ability to recharacterize Roth IRA conversions is a nice benefit allowed by the IRS, so do your conversions early in the year to maximize your tax-free growth.

Had enough winter yet??

Skiers rejoice!!

Sources:

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- Tax Policy Center, "Analysis of Donald Trump's Tax Plan", 12/22/2015

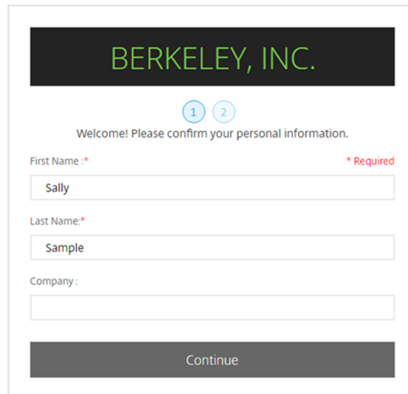
Sharefile

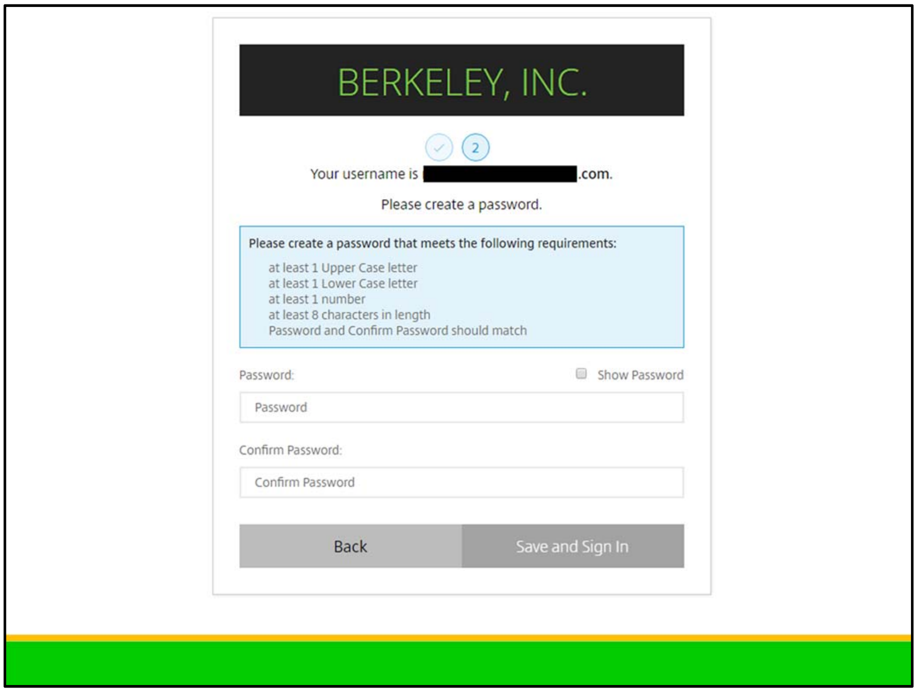
What is it?

- A way for us to securely share documents
- Easier to access & navigate than Morningstar
- Less information through email

We will be rolling out Sharefile as a new Client Vault of reports & important documents in the coming months. It works like Dropbox.

We will be sending you an email with a link to set-up your Sharefile login, the link will direct you to this:

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Your username is [redacted].com.
Please create a password.
Please create a password that meets the following requirements:
at least 1 Upper Case letter
at least 1 Lower Case letter
at least 1 number
at least 8 characters in length
Password and Confirm Password should match
Password:
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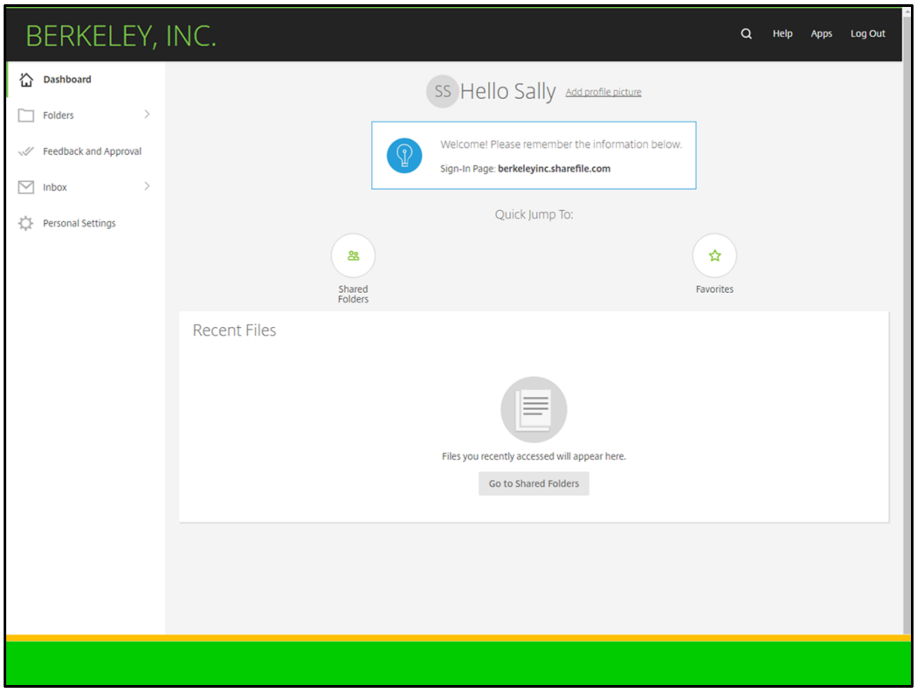
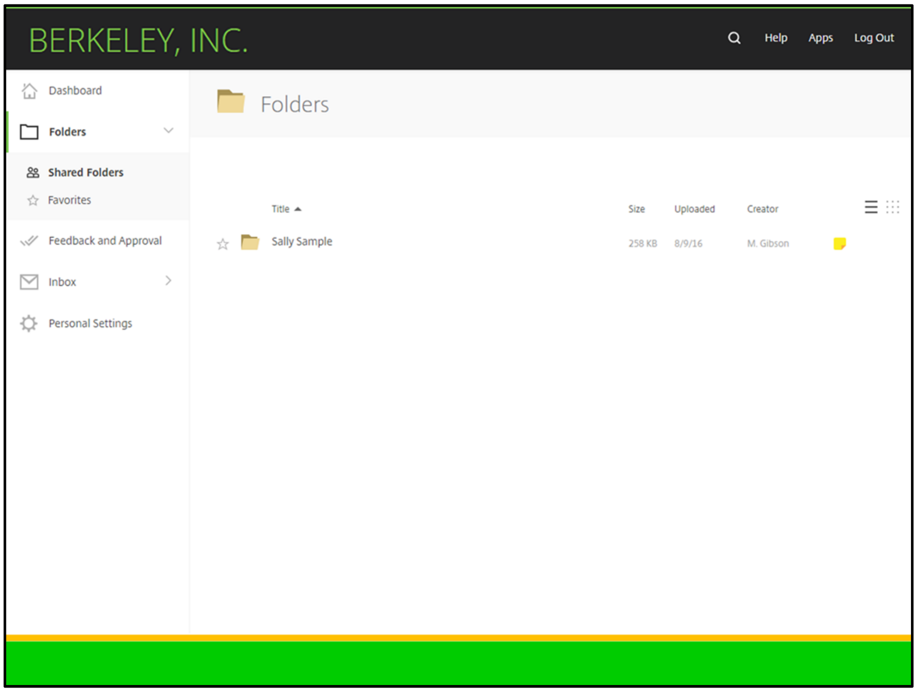
Password
Confirm Password:
Confirm Password
Back
Save and Sign In



Here is what your Sharefile home login page will look like.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