T. Rowe Price®
INVEST WITH CONFIDENCE

PRICE POINT
May 2018

Timely intelligence and analysis for our clients.

Personal Finance

WITH RECENT TAX CUTS, INVESTORS MAY NEED TO REVISIT THEIR FINANCIAL PLANNING

KEY POINTS

- The tax cuts for 2018 mean that taxpayers should revisit their financial planning using fundamental planning principles.
- An important lesson from the tax cuts is how these laws can change with the shifting political landscape; many of the new provisions for individual taxes expire in 2025, and tax increases could follow.
- One way to potentially reduce the impact of the tax changes is to diversify tax treatment of accounts, using taxable accounts, tax-deferred accounts, and potentially tax-free Roth accounts.

Having just faced the April 17 tax filing deadline, U.S. taxpayers should be considering the wide-ranging impact of the tax law changes for 2018.

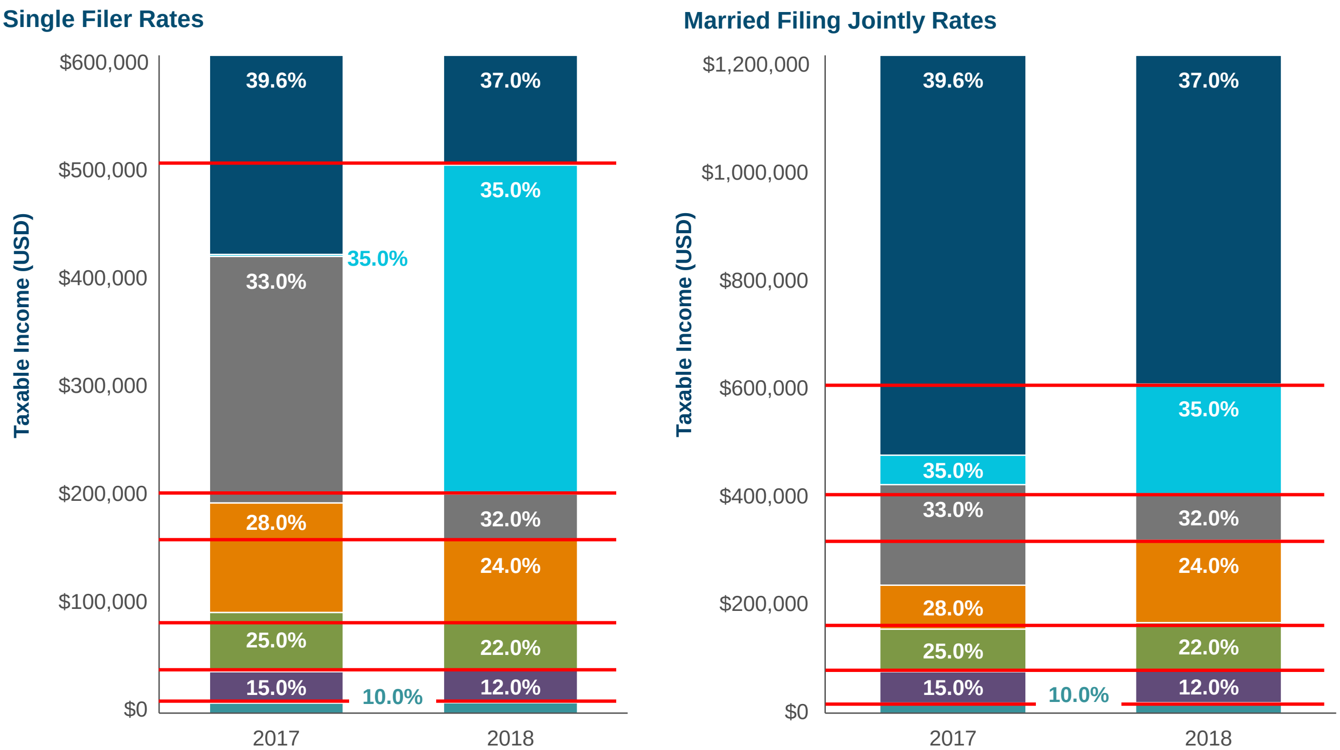
While the biggest change is a dramatic reduction in tax rates for corporations and closely held businesses, the tax overhaul also reduces marginal tax rates for individuals at most income levels.

At the same time, individual tax deductions will be changed. Among the changes: eliminating personal exemptions, increasing the standard deduction, and the reduction or elimination of certain itemized deductions (including a new $10,000 cap on deducting state and local taxes).

Two T. Rowe Price senior financial planners, Judy Ward, CFP®, and Stuart Ritter, CFP®, say that investors should approach their financial planning relative to the new tax laws using fundamental planning principles. They say:

- An important lesson from the tax cuts is how these laws can change with the shifting political landscape. Many new provisions for individual taxes expire in 2025. Tax increases could follow.

Figure 1: **Marginal Tax Rates for Single and Married Filers—2017 Versus 2018**



Note: Red lines show the 2018 tax brackets. Bracket boundaries for single filers begin at $9,525, $38,700, $82,500, $157,500, $200,000, and $500,000. For married filing jointly: $19,050, $77,400, $165,000, $315,000, $400,000, and $600,000.
Source: U.S. Tax Cuts and Jobs Act of 2017.

- One way to potentially reduce the impact of the tax changes is to diversify the tax treatment of retirement accounts, using taxable accounts, tax-deferred accounts, and potentially tax-free Roth accounts. With temporarily lower tax rates, Roth accounts may be more attractive.
- Investors also should consider rebalancing their asset allocations to manage market risk.
- If investors expect to pay less in taxes, they may be able to boost their retirement savings—aiming for 15% or more of their current salaries (including any employer contributions). Over the long term, less tax revenue could pressure funding for Social Security and Medicare benefits, so investors could end up relying more on their savings.

The recent tax changes are extremely complex, and the full effects are still not clear. Taxes are just one factor in financial decisions. Investors are strongly urged to consult their tax advisors.

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit troweprice.com.