

2ND QUARTER COMMUNITY OUTREACH



For our second quarter community outreach, we turned again to the New River Valley Agency on Aging and asked the simple question: What do seniors throughout the New River Valley need the most right now. The answer was resoundingly, dry paper goods like paper towels and toilet tissue.

It's hard to imagine sometime that necessities that we all take for granted can be so out-of-reach for many of our friends and neighbors in our community. And for our second quarter, we tried to alleviate that need just a bit.

Check of their website if you want to see more of the good work the NRV Agency on Aging does <https://www.nrvaoa.org>.

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Data Sources: YCharts, JPMorgan Asset Management, Standard & Poors. Data current as of 6/30/2024. The S&P 500 Index is unmanaged and not available for direct investment. Past performance is not a guarantee of future results. Securities and Advisory Services offered through Geneos Wealth Management. Member FINRA/SIPC.

BLACK SWAN BINGO

In economics, the term “black swan” is sometimes used to refer to rare, unpredictable, high-impact events with the potential to cause a significant movement in financial markets. The COVID pandemic would be a recent example of a black swan. During the past three months, there have been multiple such events, and yet, six months into the year, the market is up 6%.

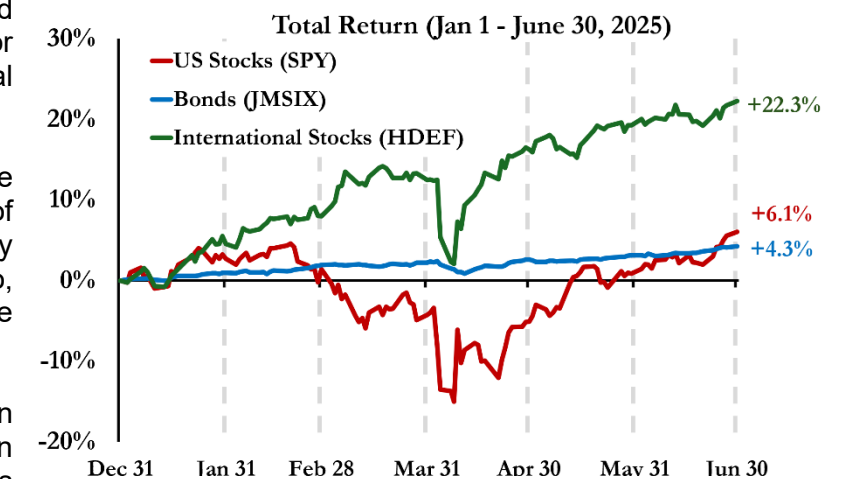
Starting the quarter off in early April, the Trump administration announced major reciprocal tariffs on many other countries, causing momentary market panic. About a week later, almost all of these tariffs were placed on hold through July, and as of the time of this newsletter, most analysts had been assuming those extensions will continue, or the tariffs will just rolled back to the 10% global level.

Next came a 12-day conflict with Iran with the potential that Iran would close the straight of Hormuz, spiking global oil prices and potentially start a major war in the Middle East. This too, seemed to end almost as soon as it began, and the market continued its churn higher.

Finally, we have a major tax bill signed into law on July 4th, which will have some level of impact on almost all of our clients and we'll spend most of this newsletter focused on. While there are some definite winners and losers from the legislation, everyone wins to the extent that we now have certainty of what taxes will look like beyond the end of this year.

There are still some lingering concerns for the market: valuations remain stubbornly high, some cracks are showing in the labor market, and uncertainty remains on the tariffs. But with certainty now on taxes, as long as the country doesn't shoot itself in the foot with tariffs, we expect markets to rise higher as long as no other swans come swimming our way. On July 7th though, a few days before the tariff pause was set to expire, it was announced that 25% tariffs would be placed on Japan and South Korea, with more countries to be announced shortly, and potential to increase or decrease. The higher inflation and economic impact of the tariffs, if they remain, will introduce uncertainty into the second half of the year, and keep the potential of a recession on the table.

	1 st Half 2024	1 st Half 2025
International Stocks (HDEF)	+1.8%	+22.3%
Gold (GLD)	+12.5%	+25.9%
US Stocks (SPY)	+15.2%	+6.1%
Bonds (JMSIX)	+3.3%	+4.2%
Real Estate (VNQ)	-3.2%	+2.0%
Cash (Money Market)	+2.7%	+2.1%



TAXES, TAXES, TAXES

Regardless of your income or age, you will likely be impacted by the “One Big Beautiful Bill Act” (OBBBA) passed on July 4th, likely to be the most consequential piece of legislation of the year. There is a lot to digest, so we will hit on the items likely to be the most relevant for our clients.

First, a quick reminder of the state of taxes prior to the bill. Under existing prior law, at the end of this year, most tax law would revert to pre-2017 levels. Tax rates would increase (the 12% bracket would go up to 15%, the 22% bracket would increase to 25%, etc.); the standard deduction would be cut in half, as would the threshold for estate taxes to kick in on high net worth families. Corporate tax rates would increase, and a whole slew of various deductions and rules would either go away or go back into effect. From a financial planning perspective, this uncertainty and looming tax cliff presents challenges, particularly for determining Roth conversion strategies and also for high net worth families trying to minimize estate taxes. The new law makes many of the temporary changes from 2017 permanent, which for better or worse, means decisions can now be made on multi-year strategies. **If you are one of the many clients we have been telling “we need to wait and see what happens with tax legislation later this year and then decide what to do”, we now have that certainty.** We will not be going into the non-tax provisions of the bill, such as cuts to Medicaid and funding for rural hospitals, although these will also likely either directly or indirectly impact many people.

Tax Rates

Tax rates will remain at their current levels, continuing to adjust each year for inflation. Importantly for many clients, this preserves the 22% and 24% brackets, which make Roth conversions so attractive. For clients seeking to systematically convert their pre-tax retirement accounts to Roth IRAs, this means those conversions can be spread over multiple years and you don't need to worry about doing large conversions this year before the opportunity is gone.

State and Local Taxes Deduction (SALT)

For families taking itemized deductions on their taxes, there has been a \$10,000 cap on the amount of state and local taxes that can be deducted. In one of the more contested parts of the legislation, this is **temporarily** increased to \$40,000 until the end of 2028 for families earning up to \$500,000, with a phase out above that level.

Estate Taxes

While the majority of families will not need to worry about estate taxes, for those impacted, this is a big one. At the end of this year, the threshold for estate taxes was set to drop to about \$7 million. The new law sets a permanent level of \$15 million per individual (\$30 million per married couple), which will increase gradually over time. For those impacted, the tax savings will be significant.

Charitable Giving

There are a couple relevant items here. Starting in 2026, for those taking the standard deduction and not able to itemize for charitable giving, you will be able to deduct \$1,000 (\$2,000 per couple) before you lose the tax benefits of your gift. For those who donate larger amounts, and itemize these donations, there is a new limit that prevents you being able to deduct the first 0.5% of your income for charitable giving. For instance, if your MAGI is \$100,000, the first \$500 of charitable giving you do would no longer be deductible. If you have a high income and are planning charitable gifts in the coming years, you could be well served to accelerate that giving to be completed in 2025, before the new rule takes effect. A good way to get the full tax benefits for your gift while still giving to the charities you care about in future years would be completing a gift to a Donor Advised Fund or your own foundation within this tax year, and then using that fund or foundation to complete your gifts to charities in future years.

529 Plans

The rules on tax-free withdrawals from 529 plans have become more generous, allowing more K-12 education expenses, plus expenses for certifications and licenses for various careers not through a traditional college setting, such as HVAC, plumbing, or flight school. There are some requirements, so ask your advisor if you're unsure.

Savings Account for Kids

You may see the news referring to these as “Trump accounts” or “MAGA Accounts.” New children who are also US Citizens born between 2025 and 2028 will receive a \$1,000 savings account, funded by the government. Parents and friends can make additional non-deductible contributions to the account of \$5,000 per year until the child's 18th birthday. Generally, we don't find these too appealing, other than the free \$1,000 going into it. When money comes out, it will be taxed as income. Alternatively, putting money into a 529 for a child will provide the 529 owner with a tax deduction at the time it goes in and come out tax-free if used for education. If college expenses are already funded or unnecessary, a standard brokerage account would offer better tax treatment of capital gains.

New Tax Breaks

- For individuals 65 and older making less than \$75,000 (\$150,000 per couple), you will be able to deduct an extra \$6,000.
- There will be a deduction up to \$25,000 for tips, subject to income limits of \$150,000 per individual, or \$300,000 per couple. The rules on who qualifies are still being decided by the Treasury department to prevent people gaming the system.
- There will be a deduction of \$12,500 for individuals (\$25,000 per couple) for overtime income. Subject to the \$150,000 and \$300,000 income test.
- You will temporarily be able to deduct up to \$10,000 per year in auto loan interest until 2028, subject to income limits, and only if the car is new and assembled in the US.

Going Away

- The current tax credit for purchasing an electric vehicle will no longer be available for vehicles placed in service after Sept 30, 2025.
- The 30% tax credit for installation of solar panels goes away on Jan 1, 2026, instead of 2034.

Planning Decisions

While everyone's financial situation is different, there are some broad actionable items if you fall into categories.

- If you are currently doing conversions of pre-tax retirement accounts to Roth IRAs, now that there is permanency in tax rates going forward, we can adjust your plan to determine the proper conversion amounts and timeline. In general, the bill will make it easier and faster to complete conversion strategies.
- Strategies involving accelerating recognition of income into 2025 before tax rates were set to increase may need to be adjusted.
- The increase in the SALT deduction will decrease the value of state tax credits for those who would be able to itemize on their federal return. At the same time, if you have a highly taxable event that you can control the timing of over the next few years, it will work well to have that take place before the end of 2028, so that your higher state taxes can be deducted on your federal return.
- Because of the new income-linked restriction on charitable deductions, if you have large gifts planned over the next few years, consider accelerating those into this year, to get the full impact of the donation.