



CRAIG FERRANTINO: The lower tax rate gives companies the ability to expand their businesses.

Good run for the money

By: [Bernadette Starzee](#) January 17, 2018

With tax cuts, low unemployment and a record-high stock market, 2018 promises to be a strong year for many people's personal finances. However, tax reform will not benefit all taxpayers and businesses equally and many Long Islanders don't know yet how they will be affected.

The Dow Jones Industrial Average made history last week when it hit the 25,000 mark for the first time, with help from a report that 250,000 private-sector jobs were added in December.

"We are starting to see a restructuring of the U.S. economy in a positive way," said Craig Ferrantino, president of Craig James Financial Services in Melville. "Low interest rates and increased employment will help grow the markets at a much quicker pace than in the past."

Ferrantino is bullish on the financial markets for 2018. "I think the lower tax rate gives companies the ability to invest locally and expand their businesses," he said.

"As far as the markets and 401(k) plans go, most people have seen significant increases over the last 12, 13, 14 months – ever since the election," said Lawrence Sprung, president of Mitlin Financial in Melville, who also expects the market to stay strong over the next six to 12 months. "We have some concerns about geopolitical issues, such as North Korea, but if you look at past years, there are almost always things like that that can spook the market."

Despite his bullish expectations, Ferrantino always cautions his clients to remember that markets can be volatile. "We have seen almost a straight-up market, and it's unrealistic to expect that to continue," he said. "There will be pull-backs; it's not going to go up every day."

Certain sectors of the market are particularly strong. "Infrastructure looks very promising, with an infrastructure bill planned for this year," Ferrantino said. "Transportation keeps growing, with more goods moving around and people buying more. Technology – especially artificial intelligence and robotics – are showing strength."

Sprung suspects “there may be a little hiccup” at the beginning of the year as people digest what this tax bill will mean to them. “I don’t think individuals have a really good handle on how the bill is going to affect them,” he said.

In particular, many Long Islanders are concerned about the new \$10,000 limit to state and local tax deductions, which will disproportionately affect Long Island and other regions with high taxes and high real estate values.

Sprung recommends individuals meet with their financial and tax advisors early in the year “to get a handle on what it really means for them,” he said. “It depends on a person’s specific facts and circumstances.”

For example, Sprung noted, “there was a lot of talk at the end of the year about prepaying real estate taxes. In some cases, our clients’ CPAs told them to prepay their taxes, and in others not. For a lot of people, it’s going to be a wash. The SALT deduction might be offset by the higher standard deduction.”

As a general rule, “higher-income folks in higher real estate tax areas will be more adversely affected than in previous years,” he added.

As for real estate values at the upper end, “I don’t see how they won’t be affected” by the SALT limit, Sprung said. “If you’re going from a house with \$15,000 in taxes that were deductible last year, and now it’s limited to \$10,000, how are you going to motivate the buyer to buy the property? Real estate prices will have to be affected unless they figure out another way to lower taxes.”

In Long Island as in the nation, the unemployment rate is low – 4.4 percent locally as of November. Salaries have been slow to recover following the economic recession of 2008, but the increase in the minimum wage to \$11 (and up to \$13 for large employers in New York City) is putting upward pressure on salaries above that amount, Ferrantino said.

“People looking for jobs are starting at higher levels,” he said. “They are not taking the lower salary like they may have two or three years ago.” From a business’ point of view, “labor is getting more expensive,” Ferrantino added.

Tax reform will have a greater impact on large businesses than small and mid-sized businesses, the latter two of which are much more prevalent on Long Island. The reduction of the corporate tax rate from 35 to 21 percent will “lead to continued if not improved hiring, but at this point it doesn’t look like it will be a tremendous boost to small and mid-sized businesses,” Sprung said. “Some businesses may be taking a wait-and-see approach to see how tax reform is going to pan out before they hire or give their employees salary increases.”

Some investors might benefit from taking advantage of tax-deferred savings by socking away more in their 401(k) or other retirement plan to offset some of the deductions they’re losing. “But that will take away from disposable income,” Sprung said. “Planning is very complicated and intermingled; you have to take a holistic approach.”