CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

CANDIDATE TRUMP BECOMES PRESIDENT TRUMP

POTENTIAL TAX IMPLICATIONS UNDER PRESIDENT TRUMP & A REPUBLICAN CONTROLLED CONGRESS

TODAY’S SPEAKERS

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AGENDA

- Interesting Facts
- Summary of Trump’s Tax Proposals
- Corporate Proposals
- Individual Proposal
- Estate and Gift Issues
- GOP Tax Proposals
- Revenue Effects
- Top 10 Planning Ideas

INTERESTING FACTS

NO TAXES – 54.4% OF THE American taxpayers that reported adjusted gross income less than $50,000 during tax year 2014 legally did not pay any federal income tax (source: IRS).

TAX DATA – The 6.22 million tax returns from 2014 that reported at least $200,000 of adjusted gross income (AGI) represent 4.2% of all returns filed, received 34.2% of all AGI nationwide and paid 58.2% of all the federal income tax that was paid nationally in 2014 (source: Internal Revenue Service).

INTERESTING FACTS

Federal estate and gift taxes collected during fiscal year 2016 (i.e., the 12 months that ended 9/30/16) were just $21.4 billion, less than two-thirds of 1% of the $3.267 trillion of tax receipts collected during the period. Total individual income taxes collected (1040s) were $1.546 trillion, its largest total ever and more than 5 times the size of the $300 billion of corporate taxes collected (source: Treasury Department).

INCREASE EVERYONE – Individual income taxes paid by American taxpayers would have to increase by +38% in order to eliminate our $587 billion deficit from fiscal year 2016 (source: Treasury Department).

PRESIDENT-ELECT TRUMP'S TAX POLICY – AS PREVIOUSLY DISCUSSED BY CANDIDATE TRUMP

SUMMARY - FUNDAMENTAL REFORM

- Trumps' plan would significantly reduce marginal tax rates on individuals and businesses.
- The plan would reduce federal revenues by $9.5 trillion over its first decade.
- However, unless it is accompanied by very large spending cuts, it could increase the national debt by nearly 80 percent of gross domestic product by 2036, offsetting some or all of the incentive effects of the tax cuts.

CORPORATE PROPOSALS

PRESIDENT-ELECT TRUMP'S PLAN WILL REDUCE CORPORATE TAX RATE TO 15%

*The Trump Plan will also eliminate the corporate AMT

ADDITIONALLY, THERE WILL BE SOME FORM OF EARNINGS REPATRIATION

Business Taxes: Overview

- Limit the top individual income tax rate on pass-through businesses such as partnerships to no more than 15 percent.
- Repeal most tax breaks for businesses.

Business Taxes: Continued

- Impose up to a 10 percent deemed repatriation tax on the accumulated profits of foreign subsidiaries of US companies on the effective date of the proposal, payable over 10 years.
- Tax future profits of foreign subsidiaries of US companies each year as the profits are earned.

Business Taxes: Continued

- Establishing a top rate on pass-through business income that is 10 percentage points below the top rate on wages would create a very strong incentive for wage earners to become independent contractors, who would be taxed at the preferential pass-through business rates.

Business Taxes: Continued

- Another consequence of the lower top rate on pass-through income is that carried interest would be taxed at a much lower rate than under current law.

Business Taxes: Continued

- Large reductions in the corporate rate and the repeal of deferral would reduce the incentive for firms to recharacterize their domestic income as foreign-source to avoid US tax.

INDIVIDUAL PROPOSALS

INDIVIDUAL PROPOSALS

- Limit the tax value of itemized deductions (other than charitable contributions and mortgage interest) and exclusions for employer-provided health insurance and tax-exempt interest.
- Increase the phase out rates for the personal exemption and the limit on itemized deductions.
- Repeal the alternative minimum tax.

INDIVIDUAL PROPOSALS

- Collapse the current seven tax brackets, which range from 10 to 39.6 percent, into three brackets of 12, 25, and 33 percent.
- Increase the standard deduction to $15,000 for single filers and $30,700 for joint filers in 2015, indexed for inflation thereafter.
- Leave personal exemptions unchanged at $4,000 per person in 2015, indexed.

INDIVIDUAL PROPOSALS

- The Trump plan would reduce the tax incentive to donate to charity. Most very high-income taxpayers, who account for the bulk of the dollar value of charitable donations, would continue to itemize and thus still benefit from the deduction. However, their subsidy would be much lower.

REVISED RATE STRUCTURE

President-elect Trump’s plan will collapse the current seven tax brackets to three brackets

- Brackets & Rates for for Married-Joint filers:
  - Less than $75,000: 12%
  - More than $75,000, but less than $225,000: 25%
  - More than $225,000: 33%

*Brackets for Single filers are ½ of these amounts

**Eliminating individual AMT is still in discussion

PROPOSED DEDUCTIONS

- Standard deduction will be increased to $30,000 for Married-Joint filers and $15,000 for Single filers
- Personal exemptions will be eliminated as will the head-of-household filing status
- Additionally, itemized deductions will cap at $200,000 for Married-Joint filers and $100,000 for Single filers

HIS PLAN WILL
KEEP CAPITAL GAINS &
DIVIDENDS RATES IN PLACE

I.E. LONG-TERM CAP GAINS &
QUALIFIED DIVIDENDS AT

20%

ADDITIONALLY,
CARRIED INTEREST WILL BE
TAXED AS
ORDINARY INCOME

THERE WILL ALSO BE A REPEAL OF THE

3.8%

NET INVESTMENT INCOME TAX

ESTATE & GIFT TAXES

Repeal federal and estate gift taxes.*

* But he now calls for taxing pre-death appreciation in assets of large estates, subject to a $10-million-per-couple exemption. He would do this by limiting the step-up in basis for heirs who inherit capital assets from those estates.

ESTATE & GIFT TAXES

- Trump’s plan would repeal federal estate, gift, and generation-skipping taxes.
- We assume that the cost basis of inherited assets would continue to be "stepped up" to their value at the time of death, which would be a more generous provision than the one temporarily enacted when the estate and gift tax was temporarily repealed in 2010.

THE TRUMP PLAN WILL AIM TO REPEAL ESTATE TAX

*We believe that this repeal could also apply to gift taxes – this awaits further clarification

AND STEP-UP BASIS FOR ASSETS TRANSFERRED AT DEATH WOULD BE REPEALED FOR MOST ASSETS

*Clarification is still needed – however – there is discussion that up to $10 million of assets will be permitted to be transferred without triggering tax at time of death
– This exemption may only apply to business interests

REALISTIC EXPECTATIONS FOR TAX LEGISLATION

SPEAKER
PAUL RYAN

PRIOR TO THE ELECTION PAUL RYAN WAS AN ADVOCATE FOR TAX REFORM

The June 24, 2016

G.O.P. Tax Proposal

“A Better Way”

“Our Vision for a Confident America”

G.O.P. TAX PROPOSAL

- Corporate tax rate of 20%
- Pass thru entities taxed at 25%
- Eliminate deductions for medical expenses, state and local income taxes; real estate taxes. Preserves deductions for charitable contributions and mortgage interest.

G.O.P. TAX PROPOSAL

Also reduces to 3 brackets:

- 0% / 12%
- 25%
- 33%

Also repeals individual AMT

G.O.P. TAX PROPOSAL

Pass through entities would be taxed at the corporate rate on business income

G.O.P. TAX PROPOSAL

Reduce certain capital game rates to:

6%, 12.5%, or 16.5%

~ Depending on your regular rate.

G.O.P. TAX PROPOSAL

Limit itemized deductions to (1) mortgage interest and (2) charitable contributions

THIS ALIGNS WITH PRESIDENT-ELECT TRUMP’S TOP PRIORITIES

MEANING – AMERICANS COULD SEE REAL CHANGE

ADDITIONAL TOP PRIORITIES

Additional top priorities for President-elect Trump include:

- Foreign Trade
- Immigration

Infrastructure is also among President-elect Trump's priorities – however – less imperative than the above

Revenue Effects

- Reduce federal receipts by $9.5 trillion between 2016 and 2026.
- This decade is the 10-year budget window plus 2016 (in which revenues would fall slightly because taxpayers would hold off realizing capital gains in expectation of a rate cut in 2017).

Revenue Effects

- Three-fourths of the revenue loss would come from individual income tax provisions
- Limiting the value of itemized deductions and eliminating certain other preferences would raise individual income taxes.

Revenue Effects

- The business income tax cuts would reduce revenues by about $3.5 trillion over the decade. Repealing business tax expenditures would recoup about one-quarter of that loss.


TOP 10 PLANNING IDEAS
IT’S TIME TO DO YEAR END PLANNING

TOP 10 PLANNING IDEAS

1. Do year end planning =

Given the expected tax overhaul in 2017 active year end planning before year end is more important than ever.

TOP 10 PLANNING IDEAS

2. Remember the alternative minimum tax (AMT)

Given the expected limitations in 2017 and beyond on itemized deductions there will be a natural inclination to maximize deductions in 2016. Don't get trapped in the AMT and have this strategy backfire.

TOP 10 PLANNING IDEAS

3. Accelerate deductions

With lower tax rates in 2017 deductions are worth more in 2016. Focus on maximizing income tax, real estate tax and charitable contribution deductions. Maximize business deductions on pass through entities.

TOP 10 PLANNING IDEAS

4. Defer income

With lower tax rates in 2017 delaying income recognition may make sense.

TOP 10 PLANNING IDEAS

5. Know your effective tax rate

In 2016 the top individual rate is 39.6% (plus 3.8% on certain income) while the proposed top rate is 33%. However, based on proposals there will be significantly fewer deductions in 2017 so while your “stated rate” may be lower your “effective rate” may be higher.

TOP 10 PLANNING IDEAS

6. Gifting and estate planning

It is proposed that gift and estate taxes will be eliminated in 2017. Therefore careful consideration should be done before making a taxable gift.

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TOP 10 PLANNING IDEAS

7. More on gifting

There are proposed regulations issued by the Treasury Department which seek to limit discounts on the transfer of ownership interests in family controlled entities.

Even if the estate and gift tax survives tax reform in 2017 the election of Donald Trump makes it highly unlikely that these proposed regulations ever take effect.

TOP 10 PLANNING IDEAS

8. Gifting and Planning – one last item

Even if the gift and estate tax is eliminated families should continue to use LLCs, trusts and other structures to insure that assets avoid probate, assets are protected from creditors and other adversarial third parties and assets are managed to maximum benefit of family.

TOP 10 PLANNING IDEAS

9. Maximizing charitable contributions

Give appreciated stock instead of cash.

Donate by using your credit card.

Keep in mind the 50%, 30% and 20% AGI limitations.

TOP 10 PLANNING IDEAS

10. Investment portfolio review

Prior to year end evaluate unrealized gains and losses in your portfolio. In conjunction with your investment advisors consider repositioning portfolio holdings.

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