The Siller & Cohen Report

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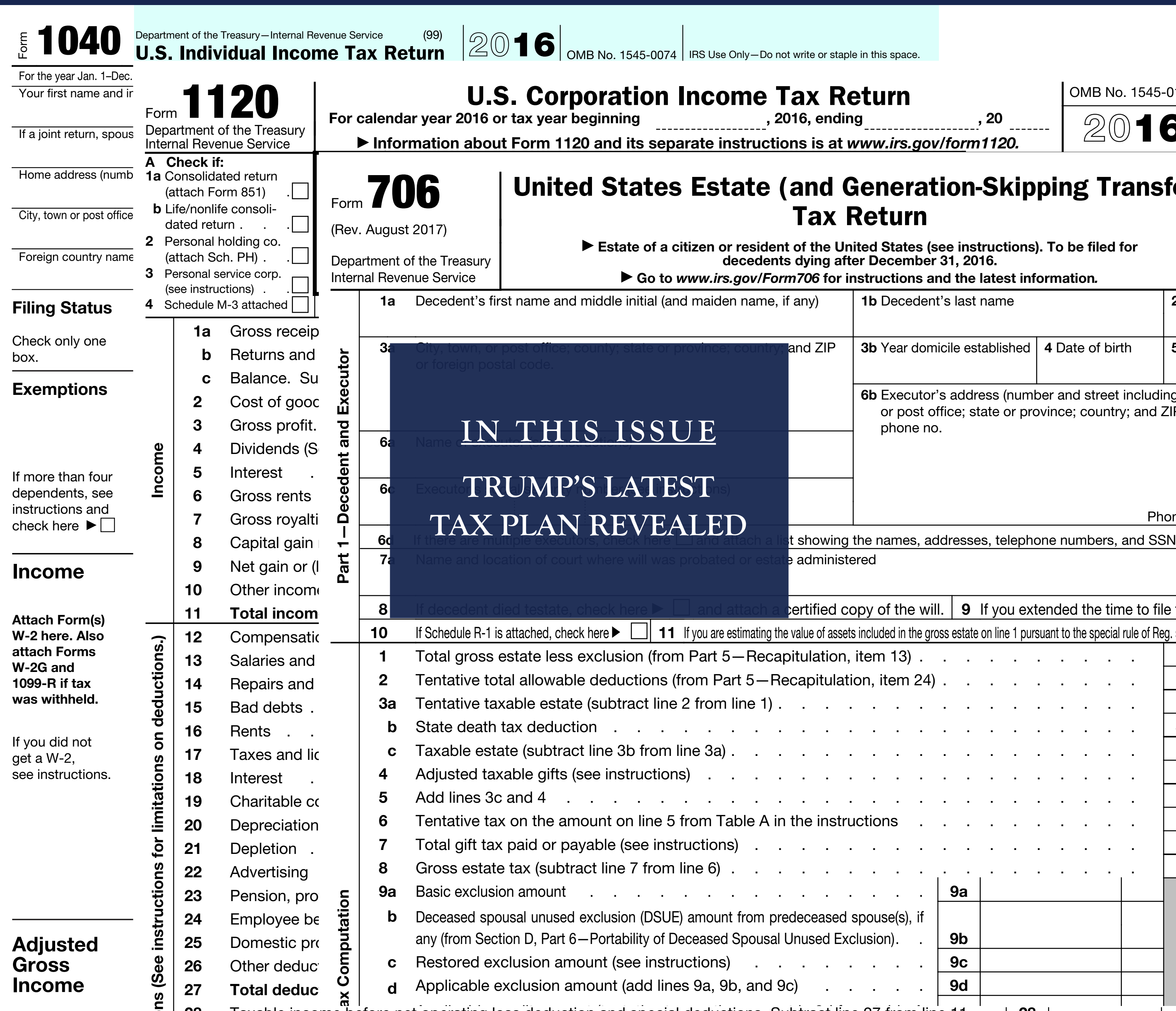

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Trump's Latest Tax Plan Revealed

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Trump's Latest Tax Plan Revealed

On September 27, 2017, President Trump and the so-called "Big 6" (Treasury Secretary Steven Mnuchin, Speaker of the House Paul Ryan, Chairman of the House Ways and Means Committee Kevin Brady, National Economic Council Director Gary Cohn, Senate Finance Chairman Orin Hatch, and Senate Minority Leader Mitch McConnell) unveiled a nine-page outline of a tax plan.

Estate Taxes

What we know

• Federal estate and generation skipping taxes would be eliminated.

What we don't know

• What happens to the current "step up in basis" which helps heirs to bypass capital gains taxes on assets they inherit?
• What happens to the gift tax?

Our observations

The current federal estate tax equivalent exemption amount is $5.49 million per person (projected to go to $5.6 million in 2018), $10.98 million for a married couple (projected to be $11.2 million in 2018). At those levels, only 2 out of 1000 estates (.2%) are projected to pay any federal estate tax. If the "step up in basis" (which generally increases the cost basis of many assets to the fair market value as of the date of death) is eliminated, heirs will have to pay capital gains tax when the assets are inherited or when the assets are later sold, which they don't under the current system. This could mean an increase in taxes to the 99.8% of estates that currently pay no federal estate tax and no capital gains tax as a result of the current "step up in basis" to date of death values. It could also mean that the tax savings for the .2% that may currently be subject to the federal estate tax would receive less of a tax benefit than on the face of it, as their heirs would also be impacted by the loss of the "step up in basis".

The federal gift tax is likely to stay in place as a way to avoid significant "income tax bracket" shifting from the wealthy (often in higher income tax brackets) to their heirs (often in lower income tax brackets).

Another reason gift taxes are likely to stay in place has to do with the fact that every time the federal estate tax has been eliminated in the past it has always been reinstated. Elimination of the federal gift tax would potentially allow transfers to heirs that could permanently avoid federal estate tax, even if that tax is reinstated at a future date.

Other related issues

State estate / inheritance taxes are not being eliminated under federal law.

Income taxes on tax deferred retirement plans which are triggered because of the participant's death, unless payable to a spouse and rolled over, are not being eliminated.

Business Taxes

What we know

• The current tax rate of 35% would be reduced to 20%.
• Pass-through entities (e.g., S Corporations, partnerships, and LLCs taxed as partnerships) that are currently taxed to the owners at individual rates would be subject to a more favorable rate of 25%.
• Limitations on deductions for interest for C corporations.
• One time tax on stockpiled foreign profits.
• Allows immediate write offs of new business investment (other than structures) in depreciable assets, for at least 5 years.

What we don't know

• Rules to prevent business owners from reclassifying wages as business income.
• Details of interest deduction limits.
• Details of any favorable repatriation of foreign profit rules.

Our Observations

The corporate tax rate reduction, while expensive, is meant to make U.S. companies more competitive internationally. A reduction to 20%, would place the U. S. Corporate tax rate below the 22.5% average tax rate of the OECD's 35 member countries. This would translate to higher corporate profits and to the extent that it has not already been priced in could lead to higher stock market values. The hope is that this also leads to more hiring.

Lower taxes on pass-through entities could also lead to increased hiring. The biggest challenge will be enforcing rules to avoid potential abuses of business owners recharacterizing wage income as business income to qualify for the lower rates. Interestingly, the White House recently suggested that service businesses would not qualify for these lower rates (e.g., attorneys, accountants, consultants, etc.).

Individual Taxes

What we know

• Collapses 7 tax brackets into 3, with the top rate potentially reduced from 39.6% to 35%.
• No changes mentioned regarding favorable capital gains and dividend tax rates.
• State and local income tax deduction eliminated.
• Real estate property tax deduction eliminated.
• Mortgage and charity deductions retained.

• Municipal bond interest exemption protected.
• Standard deduction doubled for many taxpayers.
• Personal exemption eliminated.
• Increased child care credit.
• Repeals the alternative minimum tax.
• No changes mentioned for the tax treatment of income from carried interests, which gives favorable tax treatment to those in the hedge fund industry.

What we don't know

• At what income levels the new tax brackets would apply.
• Whether an additional top rate above 35% will apply (the proposal specifically allows a new rate to be added).

Our observations

Most of our clients are in very high income tax states and therefore may be negatively impacted by the elimination of the state and local income tax deduction. We say "may" because most of those very same clients are subject to the alternative minimum tax primarily because of the very fact that state and local tax deductions are currently not allowed when computing the alternative minimum tax. So, will the elimination of the alternative minimum tax offset additional regular taxes due as a result of the elimination of the state and local income tax deduction? We won't know until we get more details on important items including where the new tax brackets will start.

How close is this legislation to passing?

On September 27, 2017, a Forbes Magazine article projected the net cost of the tax cuts to be $2.5 trillion over 10 years. That exceeds the Senate's recently discussed draft budget that would provide for $1.5 trillion in tax cuts over the next decade.

Most respected commentators have suggested that we have a long, long way to go and much horse trading will need to take place.

What to Do?

It's hard to plan when there is so much uncertainty as to the details of the current tax proposal. It's even harder to plan when we don't know what this will look like after all of the negotiations take place.

We will be following this closely.

In the meantime, if you have any questions please do not hesitate to reach out to us.

We hope this information has been of value to you.

Sources

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About Siller & Cohen

Siller & Cohen is a boutique family wealth advisory firm providing financial solutions for the past twenty-nine years to institutions and high net worth individuals. We combine the detail and careful attention of a smaller firm with the deep resources of a national organization. Our team includes CPAs[1], Certified Investment Management Analysts, and attorneys.[1]

While we offer our clients the full range of planning services, our core areas of expertise include wealth transfer, investments, and business succession planning.

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