

THE SILLER & COHEN REPORT

3rd Quarter 2017

Form **1040**

Department of the Treasury—Internal Revenue Service (99) **2016** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. _____
Your first name and initial _____

If a joint return, spouse's first name and initial _____

Home address (number and street) _____

City, town or post office _____

Foreign country name _____

Filing Status
Check only one box.

Exemptions
If more than four dependents, see instructions and check here

Income
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a W-2, see instructions.

Adjusted Gross Income

Form **1120**
Department of the Treasury
Internal Revenue Service

A Check if:
1a Consolidated return (attach Form 851)
b Life/nonlife consolidated return
2 Personal holding co. (attach Sch. PH)
3 Personal service corp. (see instructions)
4 Schedule M-3 attached

Income
1a Gross receipts
b Returns and allowances
c Balance. Subtract lines 1a, b, and c
2 Cost of goods sold
3 Gross profit
4 Dividends (Schedule D)
5 Interest
6 Gross rents
7 Gross royalties
8 Capital gain or loss
9 Net gain or loss from other sources
10 Other income
11 **Total income**

Limitations on deductions.
12 Compensation
13 Salaries and wages
14 Repairs and maintenance
15 Bad debts
16 Rents
17 Taxes and licenses
18 Interest
19 Charitable contributions
20 Depreciation
21 Depletion
22 Advertising
23 Pension, profit-sharing, and annuity payments
24 Employee benefits
25 Domestic production activities deduction
26 Other deductions
27 **Total deductions**
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.

U.S. Corporation Income Tax Return
For calendar year 2016 or tax year beginning _____, 2016, ending _____, 20 _____
▶ Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.

Form **706**
(Rev. August 2017)
Department of the Treasury
Internal Revenue Service

United States Estate (and Generation-Skipping Transfer) Tax Return
▶ Estate of a citizen or resident of the United States (see instructions). To be filed for decedents dying after December 31, 2016.
▶ Go to www.irs.gov/Form706 for instructions and the latest information.

Part 1—Decedent and Executor

1a Decedent's first name and middle initial (and maiden name, if any)	1b Decedent's last name	2a Decedent's date of death
3a City, town or post office, state or province, county, and ZIP or foreign postal code	3b Year domicile established	4 Date of birth
6a Name	6b Executor's address (number and street including or post office; state or province; country; and ZIP code) and phone no.	
6c Name and address of executor (if different from 6a)	6d Name and address of executor (if different from 6a)	
7a Name and location of court where will was probated or estate administered	8 If decedent died testate, check here <input type="checkbox"/> and attach a certified copy of the will.	
10 If Schedule R-1 is attached, check here <input type="checkbox"/>	11 If you are estimating the value of assets included in the gross estate on line 1 pursuant to the special rule of Reg. 20.2053-6(c), check here <input type="checkbox"/>	

Part 2—Tax Computation

1 Total gross estate less exclusion (from Part 5—Recapitulation, item 13)	
2 Tentative total allowable deductions (from Part 5—Recapitulation, item 24)	
3a Tentative taxable estate (subtract line 2 from line 1)	
b State death tax deduction	
c Taxable estate (subtract line 3b from line 3a)	
4 Adjusted taxable gifts (see instructions)	
5 Add lines 3c and 4	
6 Tentative tax on the amount on line 5 from Table A in the instructions	
7 Total gift tax paid or payable (see instructions)	
8 Gross estate tax (subtract line 7 from line 6)	
9a Basic exclusion amount	9a
b Deceased spousal unused exclusion (DSUE) amount from predeceased spouse(s), if any (from Section D, Part 6—Portability of Deceased Spousal Unused Exclusion)	9b
c Restored exclusion amount (see instructions)	9c
d Applicable exclusion amount (add lines 9a, 9b, and 9c)	9d

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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

Nitti, Tony. (2017, September 27). Trump Tax Plan revealed: Three Big Changes to Look For. Retrieved from <https://www.forbes.com/sites/anthonyнити/2017/09/27/release-of-gops-long-awaited-tax-plan-reveals-exactly-why-tax-reform-is-so-hard/#b09e0224597f>

Unified Framework for Fixing Our Broken Tax Code (2017, September 27) Retrieved from <https://www.whitehouse.gov/the-press-office/2017/09/27/unified-framework-fixing-our-broken-tax-code>

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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 CPAs¹, 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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