The Cobblestone Planner

COBBLESTONE
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Post Election Tax Proposals

With the election of Donald Trump as the next President of the United States and a Republican controlled House and Senate, the prospects of a significant tax reform package being enacted appear strong. However, even with a Republican controlled House and Senate, nothing is guaranteed as President-elect Trump will need more than a simple majority in the Senate to have his tax proposals enacted. So he still must be willing to work with the other side of the aisle, and do a little fence mending within the Republican party as well, to move his agenda forward.

President-elect Trump has made several proposals regarding income and estate tax reform, including:

<u>Individual Tax Proposals</u>

1) Reducing the current seven income tax brackets to three: 12%, 25% and 33%. Most notable, the highest bracket is reduced from 39.6% to 33% and the lowest bracket rises from 10% to 12% under the current proposal.

2) Retaining the current capital gain rates: 0%, 15% and 20% while other House Republican proposals provide for a 50% exclusion of capital gains, resulting in tax rates of 6%, 12.5% and 16.5% depending on your tax bracket.

3) Increasing the standard deduction to $15,000 for single and $30,000 for joint taxpayers. This would benefit taxpayers who normally don't itemize deductions on their tax returns. In conjunction with the increase in the standard deduction, President-elect Trump proposes to eliminate the deduction for personal exemptions as well as the Head of Household filing status. The elimination of the Head of Household status has been somewhat controversial as it would increase the tax liability on single parent households that were eligible for Head of Household

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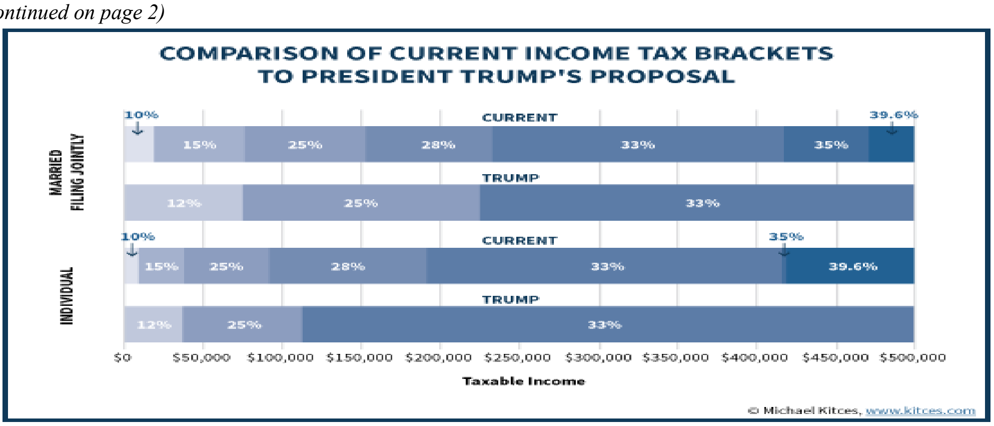

2017 Inflation Factors

The IRS has recently announced numerous inflation adjustments with regard to retirement plan savings and estate and gift tax exemptions. Some of the more popular limitations /exemptions for 2017 are as follows:

1. $18,000 maximum salary deferral to a 401(k) or 403(b) plan (same as 2016);
2. $6,000 catch-up contributions to 401(k) plans or 403(b) plans for individuals age 50 and older (same as 2016);
3. $12,500 maximum salary deferral to a SIMPLE plan (same as 2016);
4. $54,000 maximum contributions to SEP IRA accounts and Solo 401(k) accounts (up from $53,000 in 2016);
5. $5,500 maximum contributions to IRA accounts and $1,000 catch-up contributions for individuals age 50 and older (same as 2016);
6. $5,490,000 federal estate tax exemption (up from $5,450,000 in 2016);
7. $14,000 annual gift tax exclusion (same as 2016);
8. 0.3% cost of living adjustment for Social Security benefits; and
9. Maximum contributions to Health Savings Accounts of $3,400 and $6,750 for single and family coverage respectively.

filing status in the past. That combined with increasing the lowest tax rate from 10% to 12% could have a significant impact on former Head of Household taxpayers.

4) Capping the amount of itemized deductions at $100,000 and $200,000 for individual and joint taxpayers, respectively, to assist in offsetting some of the cost of the cut in tax rates that President-elect Trump has proposed. Other proposals have suggested eliminating all deductions other than charitable contributions and mortgage interest.

5) Eliminating the Alternative Minimum Tax.

6) Eliminating the estate tax and replacing it with a capital gain tax on appreciated property for estates in excess of ten million dollars. It is not entirely clear what would happen to the gift tax, but it may remain in place to protect the validity of the income tax.

7) Repeal and replace "Obamacare," which would result in eliminating the 3.8% Medicare surtax on investment income (and the 0.9% surtax on earned income) that was enacted as part of the Affordable Care Act.

Business Tax Proposals

1) Reduce the top corporate tax rate from 35% to 15%. Other Republican proposals reduce the rate to 20%.

2) Reduce the top rate applied to business income from pass-through entities (S corporations, partnerships, limited liability companies, etc.) and sole proprietorships to 15%. Again, other proposals cap this at 20% or 25%.

3) Increase the Section 179 expense deduction from $500,000 to $1,000,000.

4) Carried interest treated as ordinary income rather than capital gain.

5) Repatriate corporate profits held offshore at a one-time reduced rate of 10%.

Things to Consider

Given these proposals and considering the high probability of significant tax reform being enacted, taxpayers should consider the following as we approach year-end:

1) Defer year-end bonus or other income to 2017 to the extent possible, as tax rates could be lower next year.
2) Accelerate deductions to this year as they will be more valuable if tax rates decrease next year or deductions are curtailed.
3) Consider offsetting capital gains with capital losses.
4) Maximize contributions to retirement plans and IRAs to the extent possible.
5) Consider making annual exclusion gifts up to $14,000 per person.
6) Fund Health Savings Accounts up to $3,350 or $6,750 for single and family plans, respectively (can contribute an additional $1,000 if age 55 or older).