The Cobblestone Planner

COBBLESTONE
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Proposed Tax Legislation

President Trump recently unveiled an outline of his proposed tax reform legislation entitled "Unified Framework for Fixing Our Broken Tax Code." While the proposal is long on ideas to reform the current tax code, unfortunately it is very short on details. As a result, it is difficult to predict what final legislation might look like, and the potential impact it may have. While the prospect of some sort of tax legislation being enacted continues to seem likely, it remains to be seen if it results in a true tax reform package, or something else. The 1986 Tax Reform Act enacted under President Reagan was the last true tax reform legislation and required a bi-partisan effort to create a fairer, simpler tax system that did not inflate the budget deficit. Given the current state of affairs in Washington, this may be difficult to achieve.

The timing of new tax legislation is also unclear. President Trump and his administration have been adamant that tax reform "will not slide into 2018." As we move further into the final quarter of 2017, probabilities rise that tax reform could indeed slide into 2018, especially if it is a true tax reform package requiring support from both sides of the aisle.

The outline of tax reform, presented by President Trump, proposes significant changes to both individual and corporate tax provisions. While many of the details still need to be finalized, below is a summary of the more significant current proposals.

Individual Tax Proposals

1. Reduce the current seven income tax brackets to three: 12%, 25% and 35%. Most notable, the highest bracket is reduced from 39.6% to 35% and the lowest bracket rises from 10% to 12%. The proposal also leaves open the possibility of a fourth income tax rate exceeding 35% "to ensure that the reformed tax code is at least as progressive as the existing tax code and does not shift the tax burden from high-income to lower and middle-income taxpayers." As the proposal did not include income ranges for these new brackets, it is difficult to determine if taxpayers would see an increase or decrease in their effective rate.
2. Double the standard deduction amount. The standard deduction would increase to $24,000 (from $12,700) and $12,000 (from $6,350) for married filing jointly and single tax filers, respectively. Doing so would significantly reduce the number of taxpayers who itemize their deductions on their tax returns and result in tax simplification. This step would also expand the 0% tax bracket for taxpayers earning less than the standard deduction amount.
3. Eliminate personal exemptions. This provision would impact larger families to a greater extent and could more than offset any benefit received as a result of doubling the standard deduction. So the doubling of the standard deduction may not be as attractive as it seems at first blush. The tax proposal does state that the child tax credit will be "significantly increased," but provides no details, so it is impossible at the current time to know what the exact impact of these changes will be on taxpayers.
4. Dispense with all individual itemized deductions except for the mortgage interest deduction and the charitable contribution deduction. This change, in combination with the doubling of the standard deduction, would effectively limit the

utilization of itemized deductions to high-income taxpayers. Taxpayers in high tax states, such as New York, will be impacted the most as state and local taxes would no longer be deductible.

5. The proposal is silent with regard to capital gain tax rates, potentially implying the current rates remain in place. Previous proposals by President Trump had retained current capital gain rates.

6. Eliminate the Alternative Minimum Tax, which is viewed as both complicated and outdated, and no longer serving its original purpose.

7. Eliminate both the estate tax and the generation-skipping tax. The proposal provides no further details. So it remains unclear if the estate tax would be replaced by a capital gains tax at death or a carryover basis rule as has been proposed by President Trump in the past. It is also not clear what would happen to the gift tax. While the proposal is silent regarding the gift tax, we would expect it to remain in place to protect the validity of the income tax. Without the gift tax, taxpayers could easily shift income to lower bracketed family members for the sole purpose of reducing income taxes.

Business Tax Proposals

1) Reduce the top corporate tax rate from 35% to 20%. The U.S. has the highest corporate tax rate among developed nations. This provision was created in an effort to make the U.S. more competitive worldwide and assist in boosting the anemic growth in GDP that we have seen over the past several years.

2) Eliminate the corporate Alternative Minimum Tax.

3) Reduce the top tax rate applied to business income from pass-through entities (S corporations, partnerships, limited liability companies, etc.) and sole proprietorships to 25%. This will benefit small business owners who currently face a top tax rate of 39.6%. The proposal, while short on details, indicates that rules will be put in place to prevent re-characterization of personal income into business income to take advantage of this 25% rate compared to the top 35% personal tax rate.

4) Allow businesses to immediately write off (i.e., expense) the cost of new investments in depreciable assets, other than structures, made after September 27, 2017 for at least five years. This is a significant benefit for businesses and is seen as a way to accelerate business growth and job creation.

5) Provide for the repatriation of business profits held offshore, subjecting the profits to a one-time tax at an unspecified reduced rate. The payment of the tax liability would be "spread out over several years." This proposal could have a significant effect on economic growth as it is estimated that $2.5 to $3.0 trillion of business earnings are currently parked overseas by U.S. businesses in an effort to avoid U.S. taxation. The repatriation of those profits back to the U.S. would not only generate much needed revenue to the Treasury, but would likely support economic growth and benefit investors as well.

Final Thoughts

While the lack of details in the proposed tax legislation makes it difficult to plan, it seems highly likely that at some point in 2017 or 2018 we may have tax legislation that significantly decreases tax rates and either eliminates or severely limits tax deductions. Given that, the normal year-end tax advice would seem to apply:

1) Defer year-end bonuses or other income to 2018 to the extent possible, as tax rates could be lower next year. (Although this is tricky as some taxpayers could actually see an increase in tax liability under the proposed rules.)
2) Accelerate deductions to this year as they will be more valuable in 2017 if tax rates decrease or deductions are curtailed next year.
3) Consider offsetting capital gains with capital losses to the extent possible.
4) Maximize contributions to retirement plans, IRAs and HSAs to the extent possible.
5) Consider making annual exclusion gifts up to $14,000 per person.

2018 Medicare Open Enrollment

We all love this time of year: the change in the color of the leaves, the crisp cool air of fall, NFL football, and, of course, Medicare Open Enrollment. Medicare Open Enrollment runs from October 15th through December 7th. Open Enrollment allows current Medicare users to review their coverage and compare it with other plans on the market. This is important as insurance companies can make changes to Medicare plans that can impact the amount you pay for insurance premiums, deductibles, and prescriptions. As these changes are made on an annual basis, it makes sense to review your current Medicare coverage to make sure it still meets your needs.

If your current plan is making any changes, you should have received an "Annual Notice of Change" indicating the 2018 changes to the cost and coverage of your plan. You should review this carefully. To compare plans available to you, Medicare has a valuable online tool at www.Medicare.gov called the Medicare Plan Finder. With this tool you can compare plans to make sure your current plan is still an attractive alternative.

A few items for Medicare recipients to keep in mind as we move towards 2018:

MEDICARE PART B MEANS TESTING BRACKETS

CURRENT		
Individual filers	**Joint filers**	**Change in premium**
<$85,000	<$170,000	None
$85,001 - $107,000	$170,001 - $214,000	38%
$107,001 - $160,000	$214,001 - $320,000	97%
$160,001 - $214,000	$320,001 - 428,000	156%
$214,000+	$428,000+	213%

2018		
Individual filers	**Joint filers**	**Change in premium**
<$85,000	<$170,000	None
$85,001 - $107,000	$170,001 - $214,000	38%
$107,001 - $133,500	$214,001 - $267,000	97%
$133,501 - $160,000	$267,001 - $320,000	156%
$160,000+	$320,001	213%

Income is modified adjusted gross income.
Highlighted areas indicate adjusted brackets for 2018. Source: HealthView Services

1) Beginning in April of 2018, Medicare beneficiaries will begin receiving new Medicare ID cards that don't have Social Security numbers on them. The new Medicare ID cards include a unique randomly assigned number called a Medicare Beneficiary Identifier ("MBI"). With the recent onslaught of security breaches, this is an important and significant change.

2) Medicare Part B premiums will rise in 2018 and likely offset most, if not all, of the 2% increase in Social Security benefits for most Medicare beneficiaries.

3) There are new unfavorable income brackets for Part B enrollees that are "high-income" taxpayers (see chart). By compressing the brackets for purposes of determining who is a "high-income" taxpayer for Medicare Part B premium purposes, some beneficiaries will see a significant increase in their premiums.

4) The gap in coverage with regard to prescription drugs, often referred to as the "donut hole," becomes

less costly in 2018. For 2018, beneficiaries in the donut hole will pay 35% of the cost of brand name drugs (down from 40%) and 44% of the cost of generic drugs (down from 51%).

5) As in prior years, if you are already enrolled in a Medicare prescription drug plan or a Medicare Advantage Plan, and you don't want to make any changes to your coverage for 2018, you don't need to do anything during open enrollment, assuming your current plan will still be available in 2018.

Keep Your Fingers Crossed!

You have probably heard the recent excitement surrounding Amazon's announcement that they are taking proposals from metro areas across the country to have Amazon's "second headquarters" located in their region. It is projected that the new headquarters could have the potential for up to 50,000 well-paying jobs and be an investment of approximately $5 billion. The economic ramifications for the metro area that is selected by Amazon for its new headquarters will be enormous.

According to Moody's, Rochester should be a strong candidate for Amazon to consider. While it ranks low in Business Environment, it ranks well in the other categories ranked by Moody's, and resulted in Rochester being ranked fourth overall for best metro areas for Amazon to consider. Rochester has recently announced a joint effort with the Buffalo region in an attempt to lure Amazon's new headquarters to our area. We believe it would be a great choice. Hey, you never know!

Top Ten Metro Areas for Amazon's HQ2
Highest ranked metro areas, excluding Seattle

Metro area	Business Environment	Human Capital	Cost	Quality of Life	Transportation	Geography	Avg Score	Rank
Austin-Round Rock TX	4.62	3.27	1.87	3.46	2.21	2.17	3.08	1
Atlanta-Sandy Springs-Roswell GA	3.63	4.32	3.28	2.50	1.67	2.67	3.08	2
Philadelphia PA	3.10	4.05	3.10	2.23	2.87	4.33	3.07	3
Rochester NY	1.75	3.33	4.18	3.13	2.64	3.04	3.01	4
Pittsburgh PA	2.92	3.72	3.49	2.06	2.76	3.98	2.99	5
New York-Jersey City-White Plains NY-NJ	3.26	4.46	0.62	3.83	2.68	3.67	2.97	6
Miami-Miami Beach-Kendall FL	3.64	3.21	2.41	3.24	2.18	2.96	2.94	7
Portland-Vancouver-Hillsboro OR-WA	3.74	2.23	2.05	3.62	2.89	0.98	2.91	8
Boston MA	3.92	4.18	0.79	2.90	2.69	3.48	2.90	9
Salt Lake City UT	4.01	1.85	3.23	2.62	2.73	1.25	2.89	10

Source: Moody's Analytics