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Seven Key Components Of Trump's Tax Reform Plan

On November 8, 2016, Donald Trump was elected the 45th president of the United States, culminating a two-year campaign. It is expected that it will take considerably less time for the former business mogul to push tax proposals through a Republican-led Congress. Although these provisions likely will be tweaked during congressional debate and negotiations, here are seven key items on Trump's tax agenda:

1. Individual tax rates. One cornerstone of Trump's tax plan is a restructuring of individual income tax brackets. The seven-bracket system now features a bottom tax rate of 10% and a high of 39.6%. Trump would replace the system with one having just three tax brackets: 12%, 25%, and 33%. Most taxpayers could pay less with this structure, but the largest benefits will be for those in the higher tax brackets.

2. Corporate tax rates. Another consistent theme in Trump's campaign was a pledge to reduce corporate income tax rates. Corporations currently pay tax at rates as low as 15% and as high as 35% (with a 38% bubble on some income). Under Trump's plan, all businesses would be taxed at a 15% rate, providing a tax cut to the majority of corporations. At the same time, Trump hopes to eliminate "double taxation" for C corporations, while preserving benefits such as liability protection.

3. Itemized deductions. Although Trump is offering tax relief to individuals with one hand, he would take it away with the other by eliminating some itemized deductions or limiting the total amount of itemized deductions. However, exceptions could be carved out for certain deductions, such as those for charitable donations and mortgage interest. The loss of the state income tax deduction could have an adverse effect on upper-income residents of states with high tax rates, such as California and New York.

4. Business write-offs. Under Section 179 of the tax code, a business currently may deduct up to $500,000 of the cost of assets placed in service during the year, subject to a phase-out threshold of $2 million. Plus, a business may be entitled to a bonus depreciation of 50% on qualified property. As part of his plan to boost business growth, Trump would double the Section 179 deduction to $1 million and provide an immediate deduction for business investments. This could be accompanied by a repeal or modification of the depreciation rules.

5. Estate taxes. Trump has proposed to repeal the federal estate tax. In addition, he has called for eliminating the tax rule allowing heirs

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Looking Ahead

2016 proved to be tumultuous on many fronts. It began with a double-digit plunge in stock markets and ended with a six-week equity rally. Fears of rising interest rates and the political surprises of the Brexit vote and Donald Trump's victory spilled over into financial markets during the year. Amid the tumult, global stocks overall performed well. U.S. stocks again took the lead, with larger-cap U.S. stocks gaining 11.8% and smaller-cap U.S. stocks surging 21.6%. Developed international stocks returned just 2.7% in U.S.-dollar terms. European stocks in particular continued to face headwinds, falling 0.4% on the year. In both cases, the strength of the U.S. dollar weighed on returns.

The overall U.S. bond market gained 2.5% for the year. But that hid a 3.2% tumble during the fourth quarter, as rising interest rates resulted in the worst quarterly performance for bonds in 35 years. Expectations for rising inflation, along with the Federal Reserve's December decision to raise interest rates for the first time since August 2015, further contributed to falling bond prices.

In constructing globally diversified portfolios, there will be periods of time when comparisons to more concentrated portfolios and/or specific assets seem unfavorable as asset classes that are temporarily out of favor weigh on overall results. While some areas of the markets delivered strong performance this year, others faltered. Since no one can predict ahead of time which market sectors will do well, or for how long, it pays to own a wide selection of investments with attractive and differing risk and return drivers.

If you would like to discuss recent market events or have questions specific to your financial situation, please do not hesitate to contact us.

IRS Adjusts Retirement Plan Limits

Every year, the Internal Revenue Service (IRS) adjusts the amounts you can contribute to employer retirement plans and IRAs, based on inflation indexing. For 2017, the limits are slightly higher in some cases, while others stay the same. Here's a rundown on the key limits for participants:

Limits that will change for 2017

Defined contribution plans – The limit on total annual additions to 401(k), profit-sharing plans, and other such vehicles is increased to $54,000 for 2017 (up from $53,000).

Defined benefit plans – The maximum size of the annual benefit for traditional pensions and related retirement plans increases to $215,000 for 2017 (up from $210,000).

Annual compensation – The maximum amount of compensation that can be taken into account for most employer retirement plan calculations increases to $270,000 (up from $265,000).

Deductible IRA contributions – Phase-outs in 2017 for deductible IRA contributions will reflect the following changes:

- For single filers participating in an employer plan, the phase-out range increases to between $62,000 and $72,000 for 2017 (up from $61,000 and $71,000).
- For an IRA contributor filing jointly who participates in an employer plan, the phase-out range increases to between $99,000 and $119,000 (up from $98,000 through $118,000).
- For an IRA contributor filing jointly whose spouse participates in an employer plan, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from a range of $184,000 to $194,000).

Roth IRA contributions – For single filers, phase-outs for the ability to make contributions increase to a range of from $118,000 to $133,000 for 2017 (up from $117,000 to $132,000). For joint filers, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from $184,000 to $194,000 for 2016).

Limits that won't change in 2017

Elective deferrals – The deferral limit for those who participate in a 401(k), 403(b), most 457 plans, and the government's thrift savings plan remains at $18,000 for 2017. The limit for catch-up contributions to these plans for participants age 50 or over remains at $6,000.

SIMPLE plan deferrals – The limit on earnings deferrals to a SIMPLE plan remains at $12,500 for 2017. The limit for catch-up contributions for participants age 50 or over holds steady at $3,000.

Highly compensated employees – The dollar limit used to define highly compensated employees (HCEs) for employer plans stays at $120,000 for 2017.

IRA and Roth contributions – The maximum amount you can contribute to traditional and Roth IRAs stays at $5,500 for 2017. The $1,000 limit on catch-up contributions for participants 50 or over isn't subject to inflation indexing. ●

This Type Of Trust Is A Failure

Trusts come in many shapes and sizes, but you could divide them into two broad groups—grantor trusts and non-grantor trusts. There's also a third type, however—the "intentionally defective grantor trust," or IDGT, that is designed to break tax rules for estate planning purposes.

With a grantor trust, the grantor —the person who creates it—retains considerable power over how it's administered, including the rights to amend, revoke, or terminate the trust. The grantor also maintains control over the trust assets. Typically, the grantor is a beneficiary of the trust income and principal. For instance, the grantor could be the primary beneficiary, with other family members entitled to the remainder. The grantor also can act as the trustee responsible for administering the trust.

With non-grantor trusts, however, grantors give up all of those rights. They aren't entitled to the income or the principal and, usually, payouts from the trust go to other family members. Also, the grantor cannot be the trustee of a non-grantor trust.

Now consider the tax implications. Because grantors retain control over grantor trusts, they're taxed for the income the trusts produce. For grantors in higher tax brackets—including the top bracket, with its 39.6% tax rate—the income tax consequences can be significant. In contrast, income earned by a non-grantor trust is taxed to the trust itself, not to the grantor.

But that can be a problem because trusts pay comparatively high tax rates. For instance, that top 39.6% rate kicks in when trust income exceeds $12,500 in 2017. Compare that to the $470,700 threshold for the top rate for a married grantor who files a joint return, or $418,400 for a single filer. That can translate into very high taxes for a non-grantor trust.

But that's where an IDGT may

Take 7 Financial Steps In A Second Marriage

Marrying again after divorce or the death of a spouse may offer great personal benefits. But it also can lead to financial complications, especially if you have children from your first time around.

However, the blessed event doesn't have to be ruined by family squabbles. Discussing matters openly and deploying a range of estate planning strategies can help you develop a plan that meets your needs. Here are seven steps to help move you along:

1. Open the lines of communication. Before you tie the knot, be up-front about your concerns and preferences. Talk to each other about your intentions and how you expect to pass along assets to other family members, including any children and grandchildren. You might find it helpful to include an impartial person, such as your financial advisor, to "broker" the talks.

Consider this checklist of points to discuss:

- Existing financial obligations (for example, a promise to pay for a grandchild's education);
- Plans for future support and funding for retirement;
- Guardianship of any minor children; and
- A prenuptial agreement protecting your personal interests.

2. Conduct an inventory. Now is a good time to compile a list of your assets. This may include: stocks, bonds, mutual funds, and other investments; amounts that you've transferred to trusts; retirement plan and IRA funds; and proceeds that will be available from life insurance policies. Also, review any agreements made during the course of your first marriage. For instance, if you were required to name your then-spouse as the beneficiary of your retirement plan accounts, you may have less flexibility than you thought.

3. Consider the variables. Not everything is cut and dried. It's up to you to decide which assets, if any, you will comingle with your new spouse's. Keep in mind, though, that the laws of your state also may come into play. For instance, in community property states, the law presumes that assets will be owned jointly. But most states mandate "equitable distribution," calling for property to be distributed fairly, but not necessarily equally. Also, you'll want to factor in your age and health status, as well as those of your spouse.

4. Pay attention to titles. The way that property is titled, both prior to marriage and after, can have a profound effect. For example, setting up accounts as joint tenants with rights of survivorship (JTWROS) will make it clear that assets will go directly to the other named person, such as your spouse, when you die. But if a title names you as the sole legal owner of assets, they'll pass to your estate and not directly to your spouse.

5. Name your beneficiaries. If you're entering a new marriage you'll likely need to amend your existing will or replace it entirely. In particular, it's important to review the beneficiaries you've named for various assets in the will. Also, take a look at the beneficiary designations in documents for all of your retirement plans, IRAs, and life insurance policies. Those beneficiary designations take precedence over whatever may be in your will.

6. Show some trust. Your estate plan may include one or more trusts, which can be useful in transferring wealth to children of an earlier marriage while imposing some constraints on the recipients. Here are a few possibilities:

Bypass trust: This vehicle could be designed to provide income to a surviving spouse, with the remainder of trust assets going to other designated family members.

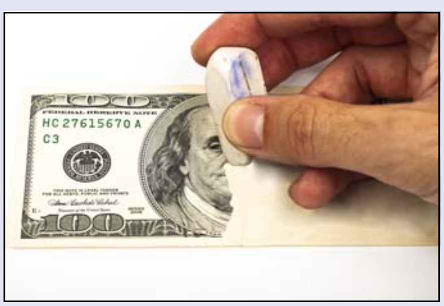
Q-tip trust: With a qualified terminable interest property (Q-tip) trust, a surviving spouse may receive income, but not principal, when the owner dies, with children receiving the remainder from the surviving spouse's estate.

Spendthrift trust: As the name implies, this trust can be helpful in restricting beneficiaries' access to assets until they reach a specified age or meet other requirements.

7. Don't forget about taxes. Last, but not least, it makes sense for both of you to consider how to minimize estate tax on the federal and state levels. That likely means use of the generous estate tax exemption ($5.49 million in 2017) as well as the "portability" provision allowing a surviving spouse's estate to benefit from the unused portion of a deceased spouse's exemption. Such provisions could be included in trust documents or other estate planning devices.

The second time around, it's more important than ever to seek expert assistance from your estate planning advisors. Don't hesitate to contact us. ●

come to the rescue. As long as the grantor retains certain powers, the grantor, rather than the trust, will be taxed on trust income—even if none of that income goes to that person. An IDGT trust is set up so that it will purposely fail to qualify as a non-grantor trust, thus avoiding the higher taxes that come with the non-grantor designation.



What about estate and gift taxes? Money you transfer to an IDGT is treated as a taxable gift, but there's a current individual exemption of $5.49 million in 2017 that could reduce or eliminate your tax liability for the gift. (There also are other ways to structure this transfer so that it's not considered a gift at all.) In addition, the assets you transfer into the trust are no longer in your taxable estate, whose value will be reduced further by the annual taxes you pay on trust assets.

But IDGTs are complex arrangements, and you'll need the help of an experienced estate planning professional to create a trust that fits your needs. Seek expert assistance. ●

Swap Munis To Your Tax Advantage

You probably already know about the tax advantages of municipal bonds. The income generated by "munis," as they're often called, is normally exempt from federal income tax, and it may not be taxed by your state, either, if your state issued the bonds. Moreover, income from munis doesn't count toward the 3.8% tax on net investment income (NII). That may help you avoid or reduce the NII tax.

But there's yet another tax-saving aspect of munis that often is overlooked. If you "swap" munis in the secondary market, you can generate a loss from the transaction. That loss, like other investment losses, can offset capital gains and as much as $3,000 of ordinary income. This strategy may be especially valuable if you realized short-term gains during the tax year in question.

To get those benefits, investors often swap munis at the end of the year, when they have a clear picture of the tax consequences. But this strategy can be implemented at any time. And if you wait until the year is drawing to a close, it may be harder to find a suitable match.

To be technically accurate, a muni swap is actually a simultaneous sale and purchase of bonds. In other words, you sell a muni whose current value is down from what you paid for it while buying another muni with similar investment characteristics—for example, the same face value. When both parts of the exchange are complete, you're in essentially the same investment position as you were before the swap, but now you have a current tax loss on the books. This could work even better if the muni you acquire has a higher interest rate than the bond you're trading away.

To see how this might work, consider this hypothetical example:

Suppose you bought an Eastern State muni years ago for $10,000. The bond's current value is $7,500, it will mature in 15 years, and it has a 4% interest rate. Other investment activity during the year has left you with a $2,500 short-term capital gain. As a result, you decide to swap the Eastern State muni for a Western State muni that also has a face value of $10,000. The Western State bond also is currently valued at $7,500, but it matures in 20 years and has a coupon rate of 4.5%.

After the swap, your $2,500 capital loss offsets your net short-term capital gain for the year. In your 39.6% tax bracket, this saves $990 in tax (39.6% of $2,500). Plus, you're now in line for more annual income. Instead of earning $400 in tax-free interest each year, you'll get $450. When the Western State bond matures 20 years down the road, you'll owe tax on the $2,500 difference between the price you paid for the bond and its face value, but that's a long way off. You might even swap munis again to head off that tax. ●

Trump's Tax Reform Plan

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to adjust the taxable basis of inherited property to its value at the death of the person making the bequest. This so-called step-up in basis may reduce capital gains taxes on inherited assets. The proposed changes could cause income tax complications for some taxpayers.

6. Repatriation tax. Tax revenue has shrunk in recent years due to so-called "tax inversions," through which multinational companies relocate their headquarters in a foreign country to avoid paying higher U.S. taxes. Trump has advocated a one-time tax repatriation holiday rate for corporations that would let them pay a tax rate of 10% on income brought back to the U.S.

7. Child care. The current tax law attempts to help beleaguered parents through a child tax credit (CTC) and a dependent-care credit for certain child-care costs. Low-income families may benefit from the earned income tax credit (EITC). Trump would overhaul the rules and institute a new deduction for child-care expenses, increase the EITC, and create tax-favored dependent care savings accounts, among other changes.

Many more changes could be in the works. For instance, Trump has advocated repealing the alternative minimum tax (AMT), the benefits for "stretch IRAs" that let inheritors spread out distributions over their life expectancies, and the 3.8% surtax on "net investment income" authorized by Obamacare. ●