HBK CPAs & Consultants

President Trump's Tax Proposals

Tax Advisory Group

On September 27th, the "Big Six" Republican Congressional leaders and White House officials released a framework for revising and simplifying the tax code. The new code is planned for a ten-year life span as opposed to being permanent. Passage will be accomplished through the budget reconciliation process, which requires a simple majority of 51 Senators to approve tax changes. The stated objectives of the tax proposals are to (i) simplify the tax code; (ii) provide a middle class tax cut; (iii) create jobs; and (iv) bring back for tax purposes trillions of dollars earned offshore.

The following summarizes the major proposals:

Given the combative Washington culture, it is difficult to see meaningful, lasting tax reform occur this time around.

PROPOSALS RELATED TO INDIVIDUAL TAXPAYERS

- The tax brackets would be reduced from seven brackets ranging from 10% to 39.6% to three brackets: 12%, 25%, and 35%. It is possible congressional tax-writing committees may look to add a fourth, higher bracket for high-income individuals. The income levels to which the three brackets would apply were not specified.
- The proposals do not include changes to the capital gains rates.
- The standard deduction would be increased to $12,000 for individuals and to $24,000 for married couples filing jointly. The intent is to substantially simplify tax filings for many taxpayers. However, the proposals would also eliminate the personal exemption deductions. For many middle-class Americans this could lead to an increase in taxes.
- The alternative minimum tax would be repealed.
- The estate tax and the generation-skipping transfer tax would be repealed. The proposals do not eliminate the gift tax. It is unclear if there would still be a "step-up in basis" to its value at the date of the benefactor's death.
- Business income from S Corporations, partnerships and sole proprietorships would be taxed at a maximum rate of 25%, a significant reduction from the current rate of 39.6%.
- The child tax credit would be increased and there would be an additional $500 credit for care of non-child dependents.
- Most itemized deductions would be eliminated, including the deduction for state and local taxes, while preserving the deductibility of mortgage interest and charitable contributions.
- Tax incentives for higher education, retirement savings, and employment would continue but no details were provided.

PROPOSALS RELATED TO BUSINESSES

- The proposals would lower the corporate tax rate from a high of 35% to 20%.
- For five years (or more), the proposals would allow the entity to expense 100% of the cost of depreciable assets, except for buildings.
- The corporate alternative minimum tax would be eliminated.
- The taxation of U.S. companies' worldwide income would end and there would be a move to a territorial system whereby businesses would only be taxed on income earned domestically.
- There would be a one-time tax on accumulated offshore earnings, which would be taxed at two unspecified rates: One rate for cash and cash equivalents and a lower rate for other assets.

- C Corporation's interest deduction would be limited. Few details have emerged on this item in the proposal.
- The 9% domestic production deduction, which has primarily benefited manufacturers, would be eliminated. Many other business deductions may be limited or eliminated, but the proposal does not provide details.
- The proposals would retain the research and development credit and the credit for low-income housing.

Overall, the Trump-led proposals do not provide much more than a framework for changes, delegating the details to Congress's tax writing committees to fill in the blanks. It is too early to know what changes could become law. Democrats have already slammed the tax plan as a windfall for the wealthy.

PLANNING RECOMMENDATIONS

As we approach the end of 2017, we expect any tax legislation that may pass to occur late in the year, limiting the time to plan. We will keep an eye on developments and continue to offer our perspective. Some of the planning possibilities we need to consider before the end of the year could include:

- Accelerate itemized deductions in 2017, especially state and local income taxes and possibly charitable contributions.
- Accelerate business deductions in 2017.
- Evaluate capital investments closely. For some investments, deferring may be more beneficial; for others, especially if financed, it might be better to accelerate.
- Defer income until 2018 where possible.
- Accelerate capital losses to 2017 and possibly defer gains until 2018.
- It could be beneficial to accelerate cost-segregation studies.
- Evaluate tax entity status as passthrough entities or C corporation status.
- For taxpayers with AMT credit carryovers, consider accelerating gains in 2017 to use the credits.
- Consider adopting estate plans that provide one result if there is an estate tax, and another if there is no estate tax.
- Consider generation skipping gifting.

Each individual and business is unique in terms of tax status, so it is difficult to generalize. We at HBK will be pleased to meet with you to help you evaluate your planning options.

Through my more than forty years of practice, I have seen most efforts to simplify our tax laws or make them more fair fail. Given the combative Washington culture, it is difficult to see meaningful, lasting tax reform occur this time around. We will keep you informed of further developments.

James M. Rosa, CPA, PFS
Principal, HBK Tax Advisory Group

Jim has been with HBK since 1986 and has extensive experience in personal and estate planning, charitable planning, tax-exempt organizations and individual tax and financial planning. Jim earned a Bachelor of Science degree in Business Administration from the University of Toledo, as well as the Personal Financial Specialist (PFS) designation, which is awarded by the American Institute of Certified Public Accountants to recognize CPAs who provide financial planning service. Jim also has experience in the tax policies, procedures and resources that HBK uses in its tax practices. He provides counsel to high-net-worth individuals throughout HBK. He was the former Tax Advisory Group chairman, is one of the firm's preeminent presenters and specializes in addressing business owners and individuals on topics such as estate and gift planning, charitable giving opportunities, the Affordable Care Act, shale energy planning and exempt organization issues.