

## Special Update

# Tax Reform Proposal Summary



Last week, Treasury Secretary Steven Mnuchin and National Economic Director Gary Cohn briefed the press on the Trump Administration's tax reform proposal. The overview was high-level and, in Director Cohn's words, meant to outline the "principles" of the proposed tax reform. Below is a brief overview of the proposal as outlined by Director Cohn and Secretary Mnuchin.

## Personal Tax Reform

### Income Tax

The proposal calls for reducing the number of tax brackets from 7 to 3. The new brackets would be 10%, 25% and 35%. The proposal also calls for "doubling" the standard deduction from the current \$12,700 for couples married filing jointly (MFJ) to \$24,000. Under the proposal, the 3.8% Medicare surtax on Net Investment Income, enacted as part of the Affordable Care Act, would be eliminated and the maximum tax rate on capital gains and qualified dividends would be 20%. The Alternative Minimum Tax (AMT) would be repealed and most deductions would be eliminated. Notable exceptions would be the home mortgage interest deduction and the deduction for charitable donations.

- **Reduce brackets to 3 from 7:** 10%, 25% and 35% brackets
- **"Doubles" the Standard Deduction to \$24,000 for couples MFJ:** from \$12,600 in 2016 for couples MFJ
- **20% max rate for cap gains and qualified dividends:** eliminate the 3.8% Medicare surtax
- **Repeal the Alternative Minimum Tax (AMT)**
- **Certain deductions would remain** (mortgage interest and charitable contributions), but others would be eliminated

### Estate Tax

The proposal also calls for a repeal of the Federal estate tax. In answering questions at the briefing, Director Cohn indicated that the Administration's desire would be for such a repeal to be effective

immediately (as opposed to phasing out) upon the passing of the new legislation. He did not indicate what, if anything, would replace the estate tax (which currently makes up less than 1% of Federal revenues). It is possible that a capital gain tax could be triggered at death or that cost basis would be carried over to beneficiaries.

It should be noted that, even if the estate tax in its current form is repealed, the need for estate planning will remain. It is also likely that repeal would not eliminate the need for tax planning as it pertains to wealth transfer, but rather change the nature of such planning.

## Business Tax Reform

Business tax reform remains a major focus of the Administration. The proposal calls for a move to a territorial tax system (i.e. one that taxes U.S. source income as opposed to worldwide income), a one-time tax on repatriated overseas profits, and a reduction in the corporate tax rate from 35% to 15%. It seems from comments at the briefing, that the new favorable rate would apply to small- and medium-sized businesses (perhaps read as: Partnerships, LLCs and sole-proprietorships) as well as large corporations. In-line with the stated "America first" agenda, these moves are designed to encourage additional U.S. investment.

While the proposal was very light on details, some form of tax reform seems plausible. For the time being, clients should remain flexible and consult with their advisors on their current plans and how these changes could affect them.

## Income taxes under Trump proposal

Tax rates	2013–2017	Trump proposal
<b>Ordinary income</b>		
	39.6% for income over threshold levels <sup>1</sup>	Eliminated
	35%	35%
	33%	Eliminated
	28%	Eliminated
	25%	25%
	15%	Eliminated
	10%	10%
<b>Alternative minimum tax<sup>2</sup></b>		
	26%/28%	Repealed
<b>Interest</b>		
	Ordinary income rates	Ordinary income rates
<b>Long-term capital gains and qualifying dividends</b>		
	20% for income over threshold levels <sup>1,3</sup>	20% for income over threshold levels <sup>1,3</sup>
	15% <sup>3</sup>	15% <sup>3</sup>
	0% <sup>3</sup>	0% <sup>3</sup>
<b>Personal exemption phaseout (PEP)</b>		
	Restored	Uncertain
<b>Limitations on deductions</b>		
	Restored	Only home mortgage interest and charitable contributions
<b>Health care reform increases</b>		
	3.8% on investment income <sup>4</sup>	Eliminated
	0.9% on earned income	Eliminated

## Estate, GST, and gift taxes

Year	Estate tax exemption	GST tax exemption	Gift tax exemption	Top estate, gift and GST tax rate
2012	\$5.12 million (portable)	\$5.12 million	\$5.12 million	35%
2013 ATRA	\$5.25 million (portable)	\$5.25 million	\$5.25 million	40%
2014	\$5.34 million (portable)	\$5.34 million	\$5.34 million	40%
2015	\$5.43 million (portable)	\$5.43 million	\$5.43 million	40%
2016	\$5.45 million (portable)	\$5.45 million	\$5.45 million	40%
2017	\$5.49 million (portable)	\$5.49 million	\$5.49 million	40%
2018	Repeal Proposed	Uncertain	Uncertain	Uncertain

<sup>1</sup> For taxpayers whose income exceeds \$464,850 for married filing jointly and \$413,200 for single filers. For trusts, 39.6% rate applies for income exceeding \$12,400 in 2016.

<sup>2</sup> ATRA permanently extends AMT relief, retroactively increasing the AMT exemption amounts for 2012 and providing that the exemption amounts will be indexed for inflation in future years

<sup>3</sup> For taxpayers in the 10% or 15% marginal income tax bracket, special 0% rate generally applies. Taxpayers in the 25%, 28% 33% or 35% tax brackets, a 15% maximum rate will generally apply. Taxpayers in the 39.6% tax bracket will be subject to a maximum rate of 20%.

<sup>4</sup> 3.8% on “unearned income” to taxpayers above \$250,000 for married filing jointly and \$200,000 for single filers. For trusts, 3.8% rate applies for income exceeding \$12,400 in 2016.

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