Trump's Proposed Tax Plan

By Kyle Ferrare, CFP®, CAIA
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After a very eventful and surprising election, here are some highlights of the President-elect's proposed tax reform plan.

Overview of the proposed plan

As a whole, the Trump Tax Reform Plan is geared towards simplification of the tax code and an overall reduction in marginal tax rates. The plan would reduce income taxes paid by both individuals and corporations, and it would eliminate the federal estate and gift tax. The intent is to use tax code reformation as a catalyst for GDP growth, wage growth, increase full-time employment and to promote overall economic expansion.

Individual Income Tax – proposed changes

- Tax bracket consolidation would result in the reduction of the current 7 bracket system to a 3 bracket system. As shown below, this would apply to ordinary income, capital gains, and qualified dividends. In addition, the plan would also eliminate the head of household filing status.

Ordinary Income	Long-Term Capital Gains & Qualified Dividends	Individuals	Married filing Jointly
12%	0%	$0 - $37,500	$0 - $75,000
25%	15%	$37,500 to $112,500	$75,000 to $225,000
33%	20%	$112,500 and up	$225,000 and up

- Elimination of the Alternative Minimum Tax.
- Elimination of the Net Investment Income Tax, which imposes a 3.8% tax on investment income for taxpayers that exceed certain modified AGI thresholds.
- Removal of the $4,050 Personal Exemption but more than doubling the allowable Standard Deduction. Joint filers will go from $12,600 to $30,000, individual filers will go from $6,300 to $15,000.
- Carried interest would no longer be taxed at capital gains rates, it would be subject to ordinary income tax rates.
- Implement a cap on itemized deductions, $200,000 for joint filers and $100,000 for individuals.
- Introduce an "above the line" deduction for childcare costs, with phase-outs of $500,000 for joint filers and $250,000 for individual filers.

Estate Tax – proposed changes

- Repeal both the Federal estate and gift tax.
- Eliminate the step-up in basis for estates over $10 million. Currently, heirs of an estate receive a step-up in basis on property acquired from a decedent, equal to the fair market value on the date of death.

Business Income Tax – proposed changes

- Reduce the current 35% corporate tax rate to 15%.
- Elimination of the corporate Alternative Minimum Tax.
- Institute a one-time 10% tax on the repatriation of corporate profits that are being held offshore.
- Eliminate certain deductions and business credits, with the exception of credits for R&D.
- Allow US based manufacturing firms to either fully expense capital investments or deduct the interest paid.

Questions yet to be answered

- Taxation of pass-through business income
    - There is some ambiguity around how this type of income would be taxed at the individual level. Historically, this income has been taxed at an individual's ordinary income tax rate. However, Trump has proposed an election that would allow this income to be taxed at a rate of 15%. This reduction would have a material impact on future federal tax revenues. The Tax Foundation, an independent not-for-profit tax research organization, has conducted an analysis on how the plan would reduce federal tax revenues. Over the next decade, the reduction in revenues on a static basis could range from $4.4 trillion to $5.9 trillion. This range hinges on the ultimate clarity around taxation of pass-through business income. Increased economic growth, as projected by The Tax Foundation, would help offset the reduction in tax revenues by around $1.8 to $2 trillion.

- Foreign trade policy
    - While not directly related to his proposed tax policies, his stance on foreign trade could have a material impact on the effectiveness of his tax plan. Much of the assumed growth, as a result of his proposed tax cuts, is dependent on a relatively open U.S. economy. The desire to reduce the US trade deficit and renegotiate trade deals could ultimately hinder the economic growth that would be spurred by the Trump Tax Reform Plan.

If you have any questions about the proposed tax policy changes, please contact your tax accountant or Massey Quick Client Advisor.

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