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The Presidential Election: Year End Tax Planning Implications

The November 8th Presidential election will have an indelible impact on potential tax law changes going forward. It is predicted that tax rates will be reduced, Schedule A itemized tax deductions will be limited and prior laws, like Obamacare, will be amended or repealed. There are even predictions that the proposed regulations which were to go into effect first of the year disallowing discounting for inter-family transfers may be eliminated. Most analysts in Washington firmly believe that significant tax legislation will be passed shortly after Trump takes office and will be retroactive effective as of January 1, 2017. This would be one of the largest tax cuts in U.S. History other than Reagan's 1981 Economic Recovery Tax Act where there was a 23% across the board decrease in marginal tax rates.

Therefore, we believe that year-end tax planning becomes critical this year. As the days go forward, these potential changes will come more and more into focus. Here is a list of some of the proposed changes:

Individual Provisions (as proposed)

- Individual tax rates will be reduced from the current seven tax rates down to just three tax rates: 12%, 25% and 33%.
- Elimination of the Head of House hold filing status.
- The top capital gain rate would be 20%.
- Elimination of the 3.8% Net Investment Income Tax.
- Itemized Deduction will be capped at $100,000 for single filers and $200,000 for married filing joint filers.
- Elimination of the alternative minimum tax.

Don Dahl, Director of Tax Services

- Foreign profits are "deemed" to be repatriated and would be taxed at a rate of 10%.
- Manufacturing businesses in the U.S. could choose between full expensing of capital improvements and the deductibility of interest paid for these capital items.

Estate Tax Provisions (as proposed)

- The current federal estate and gift tax would be eliminated but no step-up in basis would be allowed for an estate over $10 million. Some analysts believe the federal estate and gift tax system will not be repealed but that the estate tax rates would be reduced to between 25 and 33%.

Implications

- Consider accelerating deductions in 2016 if they may be lost in 2017 due to proposed itemized deduction limitations.
- Consider making any large chari table giving during 2016, when you can deduct a larger contribution

- The standard deduction will increase to \$15,000 for single filers and \$30,000 for those filing jointly. Personal exemptions would be eliminated.
- Elimination of the health insurance penalties under Obamacare.

Business Provisions (as proposed)

- Corporate income tax rate could be reduced to as low as 15%. Some analysts think the rate will end up around 27-28%. The prevailing thought is that this would include pass-through entities such as S-corporations, LLCs and partnerships.
- Employer-provided day care tax credit increases from \$150,000 to \$500,000, and the recapture provisions are reduced to 5 years from 10 years.
- Elimination of the corporate alternative minimum tax.
- The Section 199 Domestic Production Deduction is removed, along with other business incentives and credits. This is a 9% deduction that many manufacturers have come to rely on for tax relief. The best part is that R&D (research and development tax credit) is alive and well.

amount.

- Consider whether or not to purchase large pieces of equipment now and take the accelerated and bonus depreciation during 2016 or whether to wait until 2017. If LLC and corporate tax rates drop in 2017 a deduction may be more beneficial this year.

This is definitely the year to meet with your tax advisor before year end to address these changes and what their affect will be to your business and you personally. With planning you have a great opportunity to lower your overall income tax bill now and in the future. Our hope is that we will have some clarity before year end as to the final provisions and effective dates of all of the proposed tax changes so stay tuned. To discuss how these tax law changes will impact you, contact Don at 949-910-4255 or dd@hallcpas.com.

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