

2016 Tax Update



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Ground Rules



- ❑ Everything you are about to hear is speculation and can not be relied on as fact
- ❑ Do not act on any of this information
- ❑ We have an opinion only about taxes
- ❑ We have no other political opinion



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2016



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A BETTER WAY

OUR VISION FOR A CONFIDENT AMERICA

Poverty, Opportunity, and Upward Mobility

June 7, 2016

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Tuesday
November 8
2016



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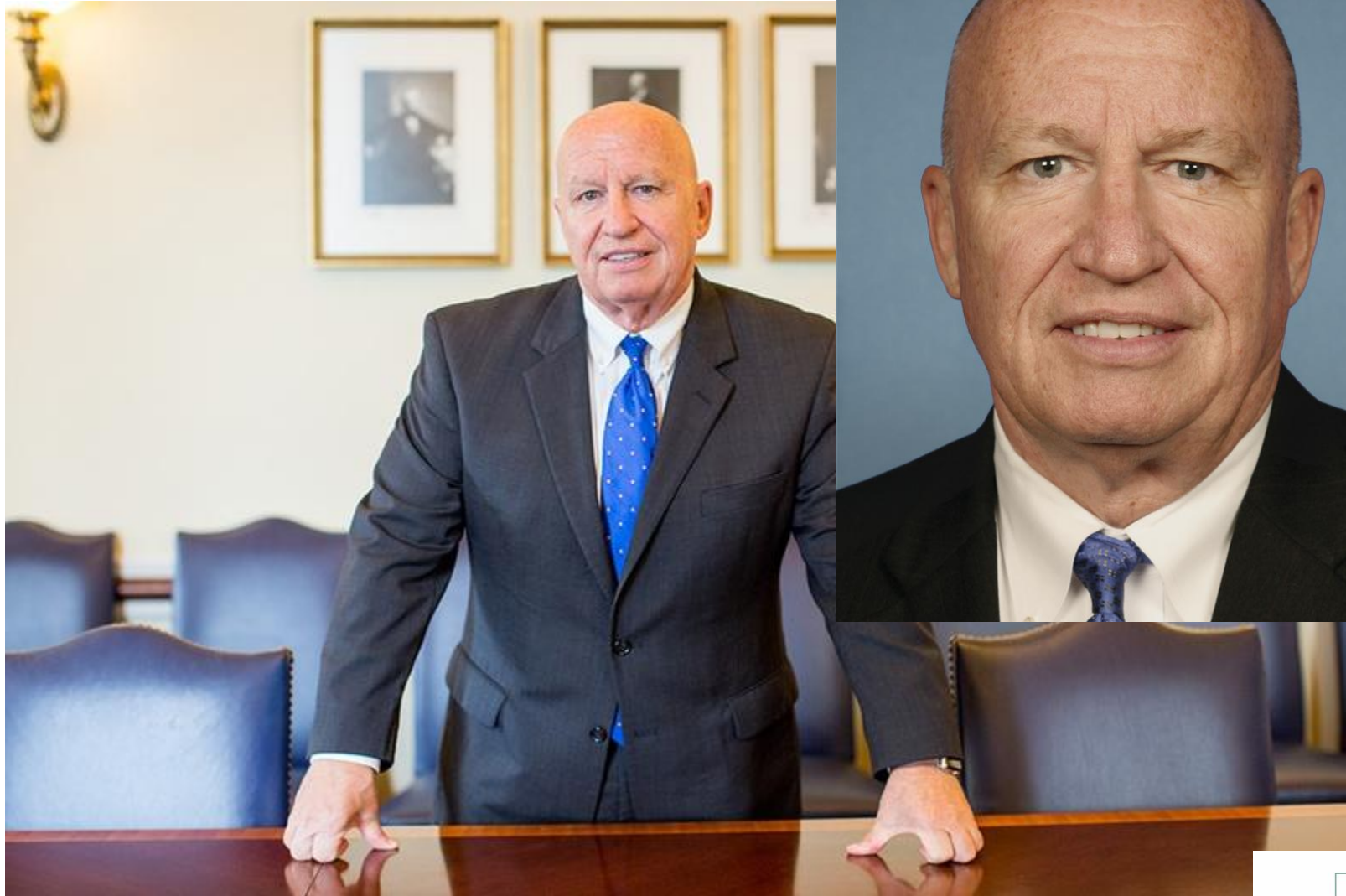
Who's in charge on Capitol Hill?

Party	House	Senate
Incoming (115th) Congress		
Republicans	238	51
Democrats	193	48
Undeclared races	4	1
Current (114th) Congress		
Republicans	246	54
Democrats	186	46
Vacancies	3	0



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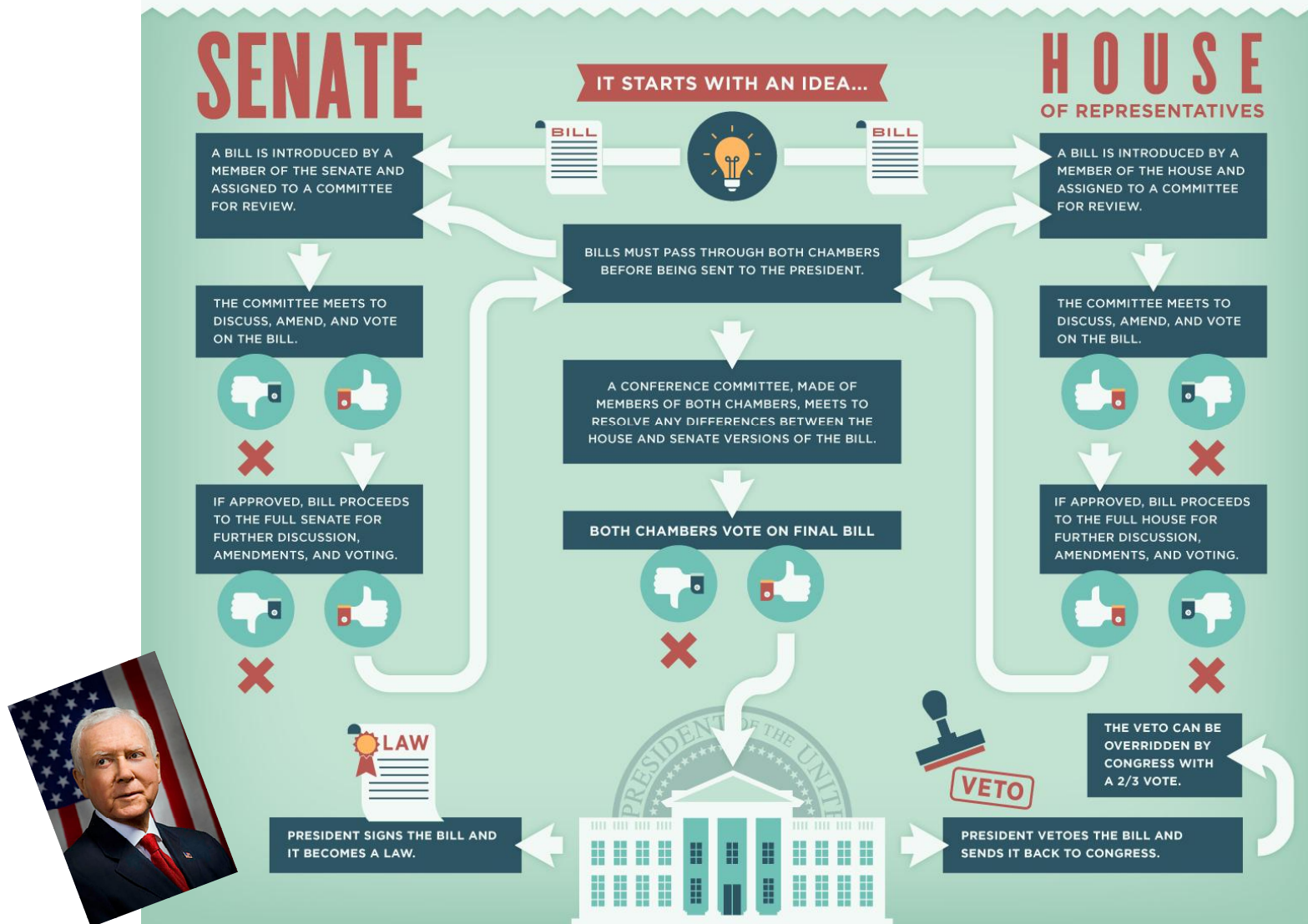
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THE US LEGISLATIVE PROCESS



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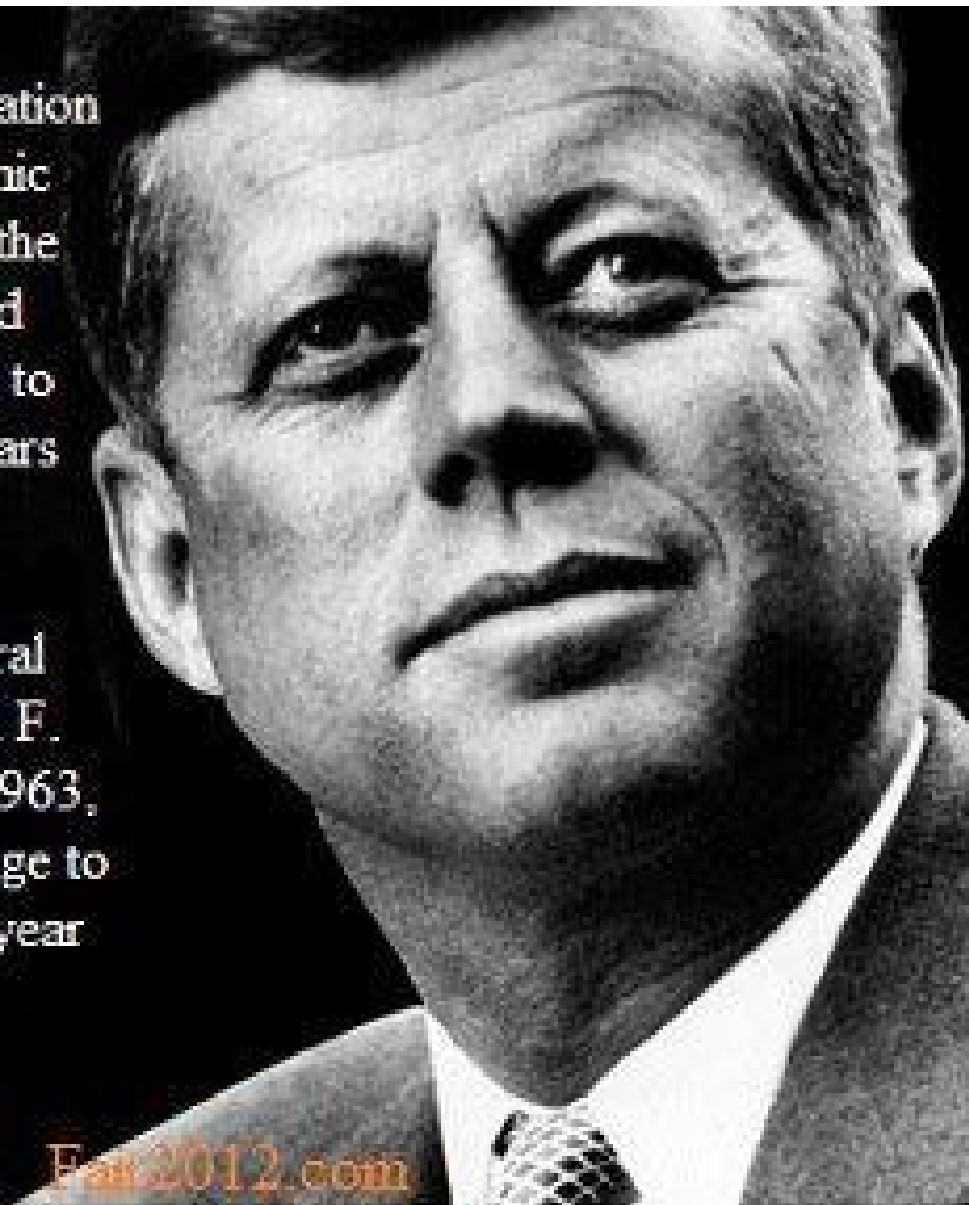
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Reconciliation is a special budget procedure to change entitlement and tax laws. It cannot be filibustered and requires only a simple majority in the Senate to be passed. It is primarily intended for deficit and mandatory spending reduction.



Lower rates of taxation will stimulate economic activity and so raise the levels of personal and corporate income as to yield within a few years an increased – not a reduced – flow of revenues to the federal government.” – John F. Kennedy, Jan. 17, 1963, annual budget message to the Congress, fiscal year 1964

Feb. 2012.com



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Selected Individual Provisions

Provision	Current law	Trump	House GOP blueprint
Income tax rates	<ul style="list-style-type: none"> • Seven brackets: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% • Additional 0.9% Medicare Hospital Insurance tax on individual filers with AGI > \$200,000 and joint filers with AGI > \$250,000 	<ul style="list-style-type: none"> • Three brackets: 12%, 25%, and 33% • Repeal 0.9% Medicare Hospital Insurance tax 	<ul style="list-style-type: none"> • Three brackets: 12%, 25%, and 33% • Repeal 0.9% Medicare Hospital Insurance tax*

Trump ordinary rate brackets v. current law

Rate	Single Filers		Married-Joint Filers	
	Current Law	Trump	Current Law	Trump
10%	\$0 to \$9,275	–	\$0 to \$18,550	–
12%	–	\$0 to \$37,500	–	\$0 to \$75,000
15%	\$9,276 to \$37,650	–	\$18,551 to \$75,300	–
25%	\$37,651 to \$91,150	\$37,501 to \$112,500	\$75,301 to \$151,900	\$75,001 to \$225,000
28%	\$91,151 to \$190,150	–	\$151,901 to \$231,450	–
33%	\$190,151 to \$413,350	\$112,501 and above	\$231,451 to \$413,350	\$225,001 and above
35%	\$413,351 to \$415,050	–	\$413,351 to \$466,950	–
39.6%	\$415,051 and above	–	\$466,951 and above	–



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Selected Individual Provisions (continued)

Provision	Current law	Trump	House GOP blueprint
Interest income	Taxed as ordinary income	No changes specified; presumably taxed as ordinary income	Taxed at ordinary rates with 50% exclusion (effective tax rates of 6%, 12.5%, and 16.5%) Pending Hatch proposal: Corporate integration plan would continue to exempt interest payments from taxation at the entity level but would impose tax on interest income – including income earned by recipients that are exempt from tax under current law – at the individual level at ordinary income rates
Capital gain and qualified dividend income	<ul style="list-style-type: none"> • Short-term capital gains (held <1 year) taxed at ordinary income rates • Long-term capital gains (held ≥1 year) taxed at preferential rates, with top rate of 20% • Additional 3.8% net investment income tax applies to individual filers with AGI > \$200,000 and joint filers with AGI > \$250,000 • Dividends taxed as ordinary income, while qualified dividends are taxed at the preferential capital gains rates 	<ul style="list-style-type: none"> • Retain current-law rates and brackets for capital gain and dividend income • Repeal 3.8% net investment income tax 	<ul style="list-style-type: none"> • Taxed at ordinary rates with 50% exclusion (effective tax rates of 6%, 12.5%, and 16.5%) • Repeal 3.8% net investment income tax* Pending Hatch proposal: Corporate integration plan would (1) exempt dividends from taxation at the entity level (likely via a dividends-paid deduction) and (2) impose tax on dividend income – including income earned by recipients that are exempt from tax under current law – at the individual level at ordinary rates

Trump capital gain rates and brackets v. current law

Bracket	Single Filers		Married-Joint Filers	
	Current Law	Trump	Current Law	Trump
0%	\$0 to \$37,650	\$0 to \$37,500	\$0 to \$75,300	\$0 to \$75,000
15%	\$37,651 to \$415,050	\$37,501 to \$112,500	\$75,301 to \$466,950	\$75,001 to \$225,000
20%	\$415,051 and above	\$112,501 and above	\$466,951 and above	\$225,001 and above



Selected Individual Provisions (Continued)

Provision	Current law	Trump	House GOP blueprint
Standard deduction and personal exemptions; provisions for children and families	<ul style="list-style-type: none"> • Standard deduction: \$6,300 for single individuals, \$9,300 for heads of households, \$12,600 for joint filers • Additional standard deduction: \$1,250 for individuals who are elderly or blind • Personal exemptions for taxpayer, taxpayer's spouse, and any dependents: \$4,050 for each personal exemption • Child tax credit: Refundable credit of \$1,000 for each qualifying child under age 17, subject to phase-out (Deduction/credit amounts are those in effect for 2016) 	<ul style="list-style-type: none"> • Increase standard deduction to \$15,000 for single filers and \$30,000 for joint filers • Eliminate personal exemptions and head-of-household filing status • Create new above-the-line tax deductions for child care and elder care expenses • Create new tax-preferred savings accounts to encourage families to set aside funds for child care and elder care expenses 	<ul style="list-style-type: none"> • Consolidate standard deduction and personal exemption into one larger standard deduction of \$12,000 for single taxpayers, \$18,000 for single taxpayers with a child, and \$24,000 for married filers • Consolidate personal exemption for children and child tax credit into a single \$1,500 credit, \$1,000 of which is refundable
Personal exemption phase-out (PEP) and limitation on itemized deductions (Pease)	PEP and Pease limitations apply for taxpayers with AGI exceeding certain thresholds	No changes currently specified (2015 plan called for "steepening the curve" of PEP and Pease)	Not specified (although the blueprint identifies these provisions as problems with the current tax code)
Charitable giving deduction	Charitable contributions fully deductible for itemizers	Cap itemized deductions at \$200,000 for joint filers and \$100,000 for single filers	Retain but "develop options to ensure the tax code continues to encourage donations, while simplifying compliance and record-keeping and making the tax benefit effective and efficient"
State and local tax deduction	Itemizers may deduct state and local income taxes, or general sales taxes in lieu thereof	Cap itemized deductions at \$200,000 for joint filers and \$100,000 for single filers	Repeal
Mortgage interest deduction	Itemizers may deduct mortgage interest on up to \$1 million in acquisition indebtedness and up to \$100,000 in home equity indebtedness	Cap itemized deductions at \$200,000 for joint filers and \$100,000 for single filers	Retain deduction; Ways and Means Committee will "evaluate options" to make the current-law deduction "more effective and efficient," but no future changes will affect existing mortgages or refinancing



Selected Individual Provisions (Continued)

Provision	Current law	Trump	House GOP blueprint
AMT	Imposed on taxpayers who have certain types of income that receive favorable treatment, or who qualify for certain deductions that can significantly reduce the amount of regular income tax; subject to exemption amounts indexed annually for inflation	Repeal; treatment of accumulated AMT credits not specified	Repeal; treatment of accumulated AMT credits not specified
Estate tax	<ul style="list-style-type: none"> • Top rate: 40% • Exemption: \$5.45 million per spouse for 2016 (adjusted annually for inflation) • Additional tax may apply to generation-skipping transfers 	<ul style="list-style-type: none"> • Repeal, but appreciated assets held at death will be subject to capital gains tax to the extent they exceed \$10 million • Disallow "contributions of appreciated assets into a private charity established by the decedent or the decedent's relatives" 	<ul style="list-style-type: none"> • Repeal estate tax and generation-skipping tax
Patient Protection and Affordable Care Act (PPACA) taxes	<ul style="list-style-type: none"> • 0.9% Medicare Hospital Insurance tax on individual filers with AGI > \$200,000 and joint filers with AGI > \$250,000 • 3.8% net investment income tax on individual filers with AGI > \$200,000 and joint filers with AGI > \$250,000 	Repeal PPACA and the business and individual taxes enacted as part of that legislation	Repeal PPACA and the business and individual taxes enacted as part of that legislation
Treatment of employer-provided health care benefits	Exclude from income and payroll taxes	No changes specified	<ul style="list-style-type: none"> • Cap exclusion at unspecified threshold* • Provide a refundable credit to allow individuals without access to employer-provided health insurance to purchase insurance in the open market*



Selected Individual Provisions (Continued)

Provision	Current law	Trump	House GOP blueprint
Higher education incentives	<ul style="list-style-type: none"> • Four higher education tax benefits – American Opportunity Tax Credit (AOTC), Hope Scholarship Credit, Lifetime Learning Credit, and qualified tuition deduction • Various deductions and exclusions for education assistance programs, interest paid on education loans, qualified tuition and related expenses, discharge of student loan indebtedness • Exception to additional 10% tax for early distributions from retirement plans and Individual Retirement Accounts used to pay for higher education expenses 	No changes specified	Blueprint indicates the Ways and Means Committee will seek to streamline the credits, retaining incentives for both college and vocational study
Retirement savings incentives	Individuals may contribute to tax-preferred traditional and Roth IRAs, subject to contribution limits and income phase-outs, and to employer-sponsored plans such as 401(k)s, subject to maximum elective contribution limits	No changes specified	<p>Retain current retirement vehicles; Ways and Means Committee will “work to consolidate and reform the multiple different retirement savings provisions in the current tax code to provide effective and efficient incentives for savings and investment,” and also consider creation of new vehicles, such as a Universal Savings Plan</p> <p>Blueprint indicates the Ways and Means Committee will seek to streamline the credits, retaining incentives for both college and vocational study</p>



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A BETTER WAY TO DO TAX REFORM

By the Numbers


SIMPLE, FAIR “POSTCARD” TAX FILING

1	Wage and compensation income	1	
2	Add 1/2 of investment income	2	
3	Subtract contributions to specified savings plans	3	
4	Subtract standard deduction OR	4	
5	Subtract mortgage interest deduction	5	
6	Subtract charitable contribution deduction	6	
7	Taxable income	7	
8	Preliminary tax (from tax table)	8	
9	Subtract child credit	9	
10	Subtract earned income credit	10	
11	Subtract higher education credit	11	
12	Total tax	12	
13	Subtract taxes withheld	13	
14	Refund due / taxes owed	14	



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Form 1040T		Income Tax Form for Donald Trump Only		2015
Name	DONALD J. TRUMP			
Income	ABSOLUTELY <u>HUGE</u> .			
Deductions	ALSO <u>HUGE</u> .			
Amount Owed	\$0			
Do you want to contribute \$3 to the Presidential Election Campaign Fund? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>				
Would you like your tax return to be: A <input type="checkbox"/> Public B <input checked="" type="checkbox"/> Secret?				
Sign Here				

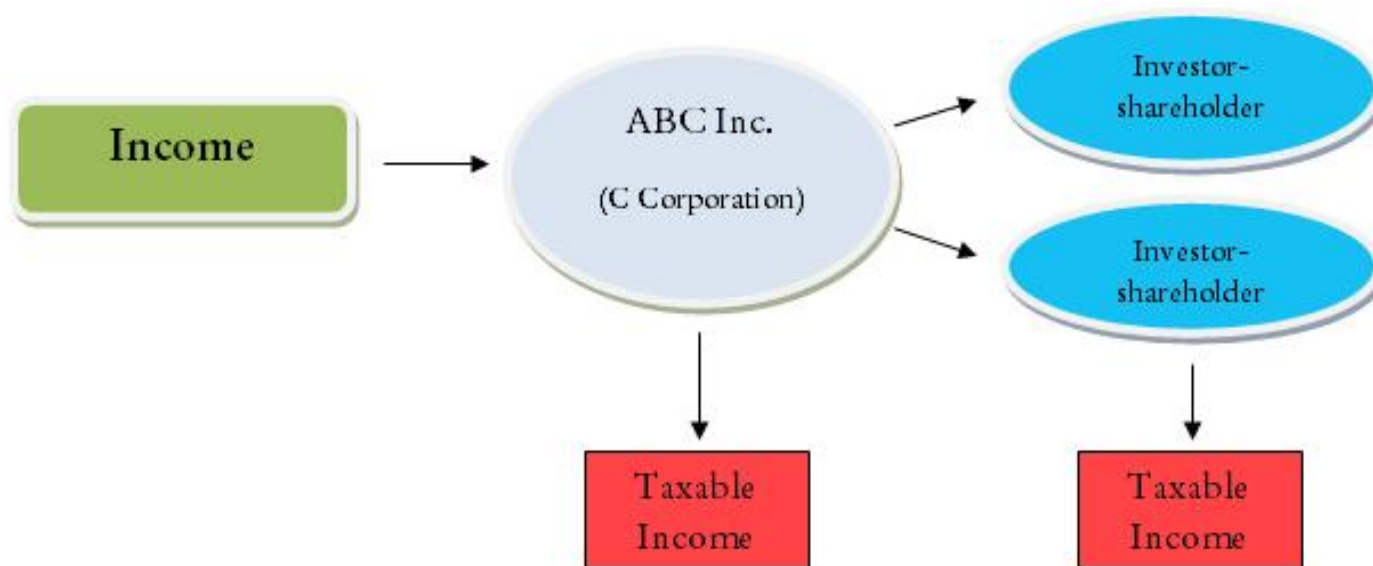
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DOUBLE TAXATION



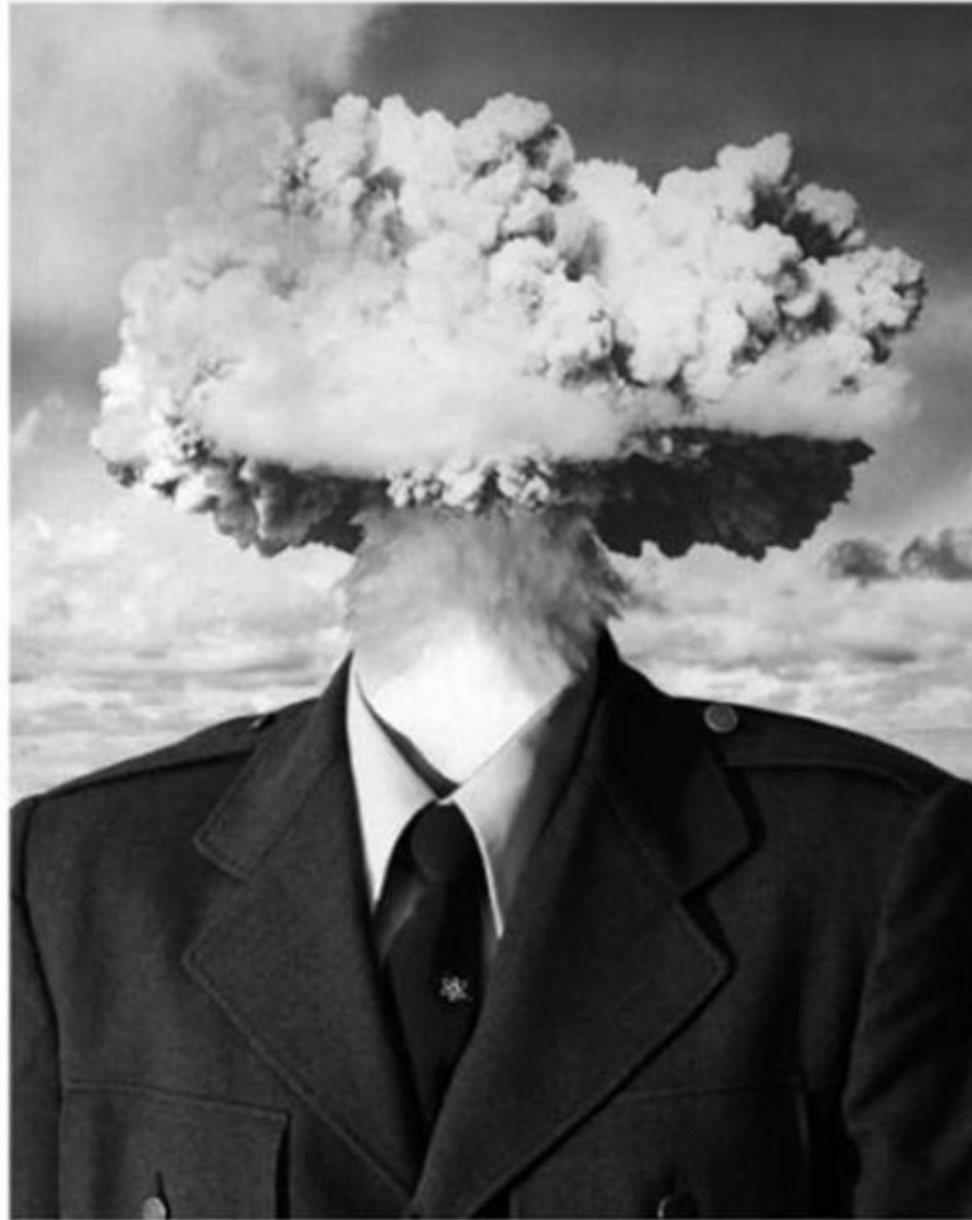
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Selected Business Provisions

Provision	Current law	Trump	House GOP blueprint
Domestic Provisions			
Top corporate rate	35%	15%	20% Pending Hatch Proposal on Corporate Integration Plan
Top pass through rate	39.6%	15% rate on pass through business income "available to all businesses, both small and large, that want to retain the profits within the business" Trump campaign has explained that: • Pass through businesses may elect to be taxed at the 15% corporate rate or under the individual side of the code • Large pass through electing the 15% rate would be subject to second-level tax on distributions to owners, but small ones would not (no details on threshold for determining when or how second-level tax would apply) • Anti-abuse provisions to prevent taxpayers from misclassifying wage income as business pass through income to take advantage of 15% rate would be negotiated with Congress	• Top rate of 25% will apply to active business income of sole proprietorships and pass through entities (partnerships, LLCs, and S corps) • Pass through entities will pay or be treated as having paid reasonable compensation to their owner-operators, which will be deductible by the business and will be subject to tax at the graduated rates for families and individuals
Depreciation	Taxpayers generally recover costs under the Modified Accelerated Cost Recovery System (MACRS) or, at their election, under the straight-line Alternative Depreciation System (ADS)	Firms engaged in US manufacturing may elect to deduct the full cost of their capital investments in year one; option is revocable within first 36 months	Full expensing in year one of all assets, tangible and intangible, other than land
Interest expense	Generally deductible	Businesses that elect full expensing in year one (see Depreciation, above) will lose their ability to deduct net interest expense	• Interest expense deductible against interest income, but no current deduction for net interest expense; net interest expense may be carried forward indefinitely and deducted against net interest income in future years • Ways and Means Committee will develop "special rules" with respect to interest expense of financial services companies to "take into account the role of interest income and interest expense in their business models."
Amortization of Intangibles	15-year amortization of acquired intangible assets	No changes specified	Full expensing in year one





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Selected Business Provisions (Continued)

Provision	Current law	Trump	House GOP blueprint
Domestic Provisions			
Research credit	Generally allows either a 20% credit for qualifying research expenses in excess of a base amount, or a 14% alternative simplified credit	Retain research credit, but repeal most of other business tax expenditures	Retain credit; Ways and Means Committee will "evaluate options" to make it "more effective and efficient"
NOLs	Generally may be carried back two years and carried forward 20 years to offset taxable income in such years; different carryback periods apply with respect to NOLs arising in different circumstances	No changes specified	<ul style="list-style-type: none"> • Eliminate NOL carryback • Permit indefinite carryforward increased by "an interest factor that compensates for inflation and a real return on capital to maintain the value of amounts that are carried forward" • Deduction capped at 90% of taxable income for the year without regard to the NOL
Domestic production activities deduction (section 199)	Up to 9% deduction under section 199 for certain income attributable to domestic production activities	Repeal most business tax expenditures <i>except for</i> the research credit	Repeal
Economic development and infrastructure incentives	Tax Credit and the Work Opportunity Tax Credit are intended to encourage employers to hire workers in high-unemployment areas or from certain targeted groups • Provisions such as tax-preferred Build America Bonds are intended to encourage infrastructure development	<ul style="list-style-type: none"> • Repeal most business tax expenditures except for the research credit • Create "a deficit-neutral system" of unspecified infrastructure tax credits to promote private-sector infrastructure investments. 	No changes specified
Patient Protection and Affordable Care Act (PPACA) taxes	<ul style="list-style-type: none"> • 2.3% excise tax on covered medical devices (suspended for 2016-2017) • "Cadillac" tax on high-cost health plans (delayed until 2020) • Provisions such as the New Markets 	Repeal PPACA	Repeal all PPACA tax increases
AMT	Imposed on a corporation to the extent its tentative minimum tax exceeds its regular tax	Repeal; treatment of accumulated AMT credits not specified	Repeal; treatment of accumulated AMT credits not specified

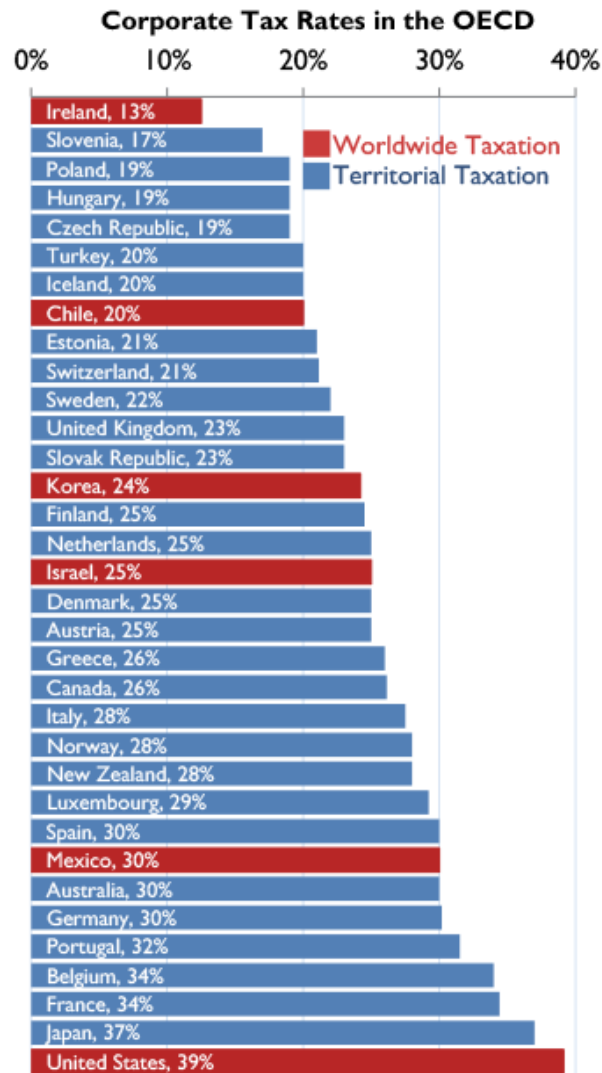


Selected Business Provisions (Continued)

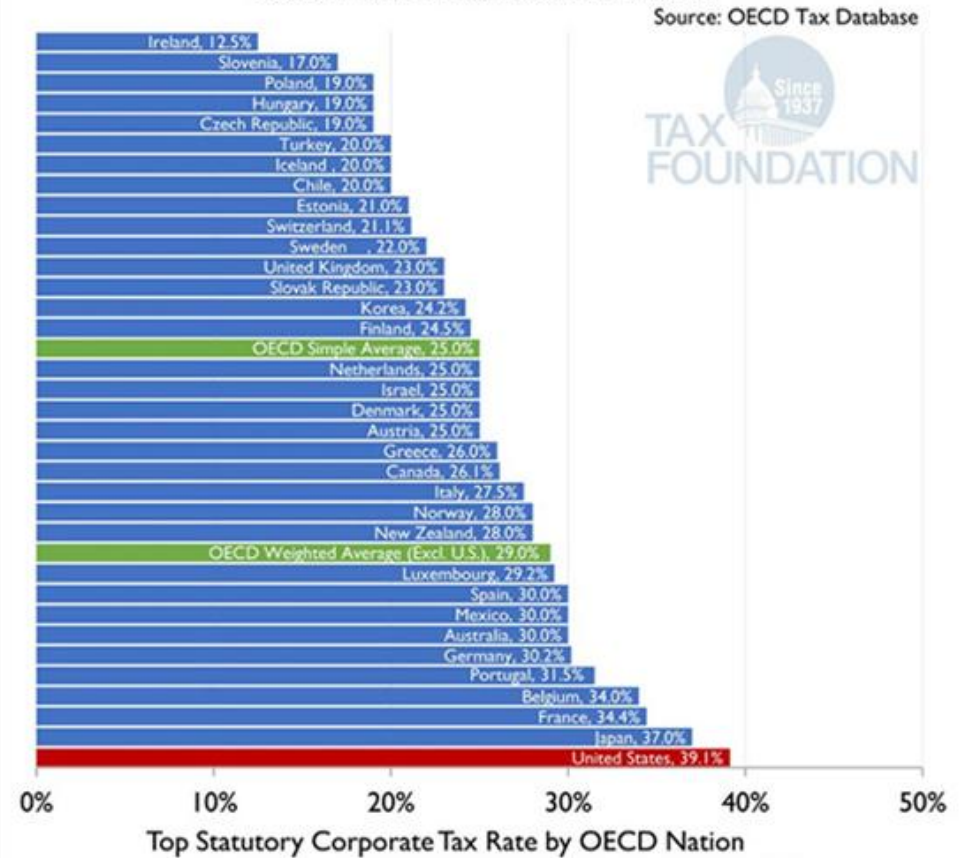
Provision	Current law	Trump	House GOP blueprint
Domestic Provisions			
Accounting methods	<ul style="list-style-type: none"> • Last-in, first-out (LIFO) and lower of cost or market (LCM) included among permissible inventory accounting methods • Cash method of accounting permissible for certain non-C corp and other entities, subject to an average annual gross receipt limit of \$5 million (gross receipt limit does not apply to personal service corporations) 	No changes specified	<ul style="list-style-type: none"> • Retain LIFO; Committee will continue to evaluate ways to make inventory accounting more efficient • No specific discussion of LCM or cash methods
Carried interest income	Taxed as long-term capital gain	Tax as ordinary income (see overview of individual provisions for details on proposed rates)	No changes to the tax treatment of carried interest are specified, though the top effective rate on long-term capital gain income would be reduced to 16.5% from 23.8% (see overview of individual provisions below for more detail)
Energy	Provides a variety tax incentives benefitting the fossil fuels industry, alternative energy, and energy efficiency	• Repeal most business tax expenditures except for the research credit	No specific proposal, although the blueprint suggests that most credits, deductions, and other preferences will be repealed
Treatment of employer-provided health care benefits	Employer-provided health benefits excluded from income and payroll tax	No changes specified	Limit the exclusion for employer-provided health benefits; new refundable credit for individuals without workplace coverage*



Figure 9. America's Uncompetitive Corporate Tax System



The U.S. Has the Highest Corporate Income Tax Rate in the Industrialized World



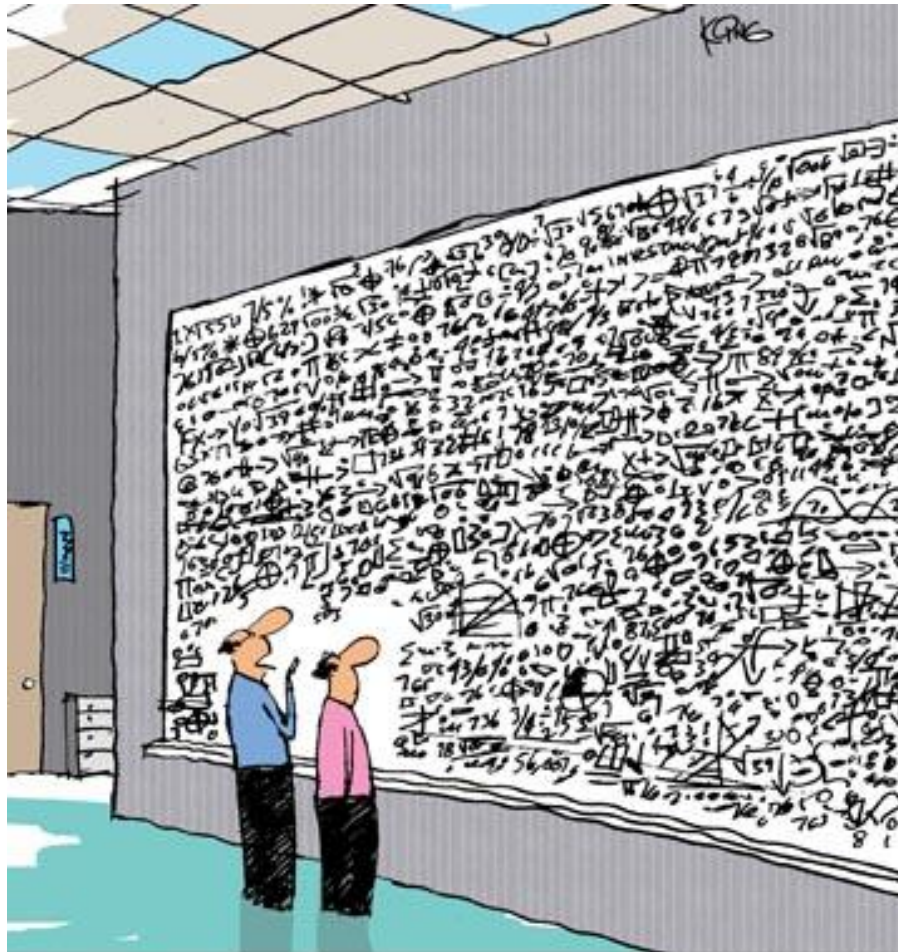
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International Business Provisions

Provision	Current law	Trump	House GOP blueprint
International Provisions			
Regime type	Worldwide with deferral	No changes currently specified (2015 plan called for retaining current-law worldwide regime and the foreign tax credit but repealing deferral)	Territorial system with 100% participation exemption for foreign dividends
Repatriation	Repatriated foreign-source income taxed at full corporate rate with allowance for foreign tax credits	One-time deemed repatriation of accumulated deferred foreign income at flat 10% tax rate; no discussion of giving companies multiple years to pay	One-time deemed repatriation with differential rates for cash (8.75%) and noncash assets (3.5%), payable over eight years at the taxpayer's election
Prevention of base erosion	Subpart F rules limit deferral for certain mobile and passive foreign income; US interest deductions for inbound firms may be limited by section 163(j)	No changes specified	Eliminate most subpart F rules; retain foreign personal holding company rules for passive income shifting
Border adjustability of tax base	N/A	N/A	Destination-based cash flow tax based on jurisdiction of consumption and not production; thus imposed on value of imports but not on value of exports, similar in concept to "border adjustments" in other countries' Value Added Taxes





“...and that, in simple terms, is the new, proposed tax reform plan.”



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