

## What Does the Future Hold for Taxes?

### Article Highlights:

- Trump's Proposed Tax Policies
- Consolidated Tax Rates
- Increased Standard Deductions
- Comparison Worksheet
- Other Factors

One topic that is frequently being discussed is what the future holds for individual taxation under incoming President Trump. Numerous blog entries have been posted on the issue; many proclaim that the wealthy will be the beneficiaries of Trump's tax policies, and some declare that lower-income taxpayers will see tax increases.

Those predictions are based upon his proposal to consolidate the individual income tax rates from seven to three: 12, 25 and 33 percent. These are the same three rates that were included in the "Better Way" tax-reform blueprint that Republicans in the House of Representatives released in June 2016.

#### Current Marginal Tax Rates Effective For 2017

Current Rates (2017)	Single	Head of Household	Married Filing Jointly
10%	\$0 to \$9,325	\$0 to \$13,350	\$0 to \$18,650
15%	\$9,326 to \$37,950	\$13,351 to \$50,800	\$18,651 to \$75,900
25%	\$37,951 to \$91,900	\$50,801 to \$131,200	\$75,901 to \$153,100
28%	\$91,901 to \$191,650	\$131,201 to \$212,500	\$153,101 to \$233,350
33%	\$191,651 to \$416,700	\$212,501 to \$416,700	\$233,351 to \$416,700
35%	\$416,701 to \$418,400	\$416,701 to \$444,550	\$416,701 to \$470,700
39.6%	\$418,401 and greater	\$444,551 and greater	\$470,701 and greater

#### Trump's Proposed Marginal Tax Rates

Trump's Proposed Rates	Single	Head of Household	Married Filing Jointly
12%	\$0 to \$37,500	Use Single Rates	\$0 to \$75,000
25%	\$37,501 to \$112,500	Use Single Rates	\$75,001 to \$225,000
33%	\$112,501 and greater	Use Single Rates	\$225,001 and greater

Under Trump's plan, the two highest current rates, 39.6% and 35%, would be eliminated, which generally favors higher-income taxpayers. However, the tax brackets alone do not tell the whole story.

Trump is also proposing more than doubling the standard deductions, which would generally benefit lower-income taxpayers. Because the marginal tax rates apply only to taxable income (which is currently defined as adjusted gross income minus personal exemptions and deductions—either standard or itemized), the increase in the standard deduction will tend to neutralize the higher marginal rates for lower-income taxpayers.

#### Proposed Standard Deduction Increase

Filing Status	Current (2017)	Trump's Proposal
Single	\$6,350	\$15,000
Married Filing Jointly	\$12,700	\$30,000

According to an estimate by the nonpartisan Tax Policy Center, of the 45 million filers who would itemize their deductions in 2017, 27 million (60 percent) would opt

for the standard deduction under the proposed rules.

To see how the proposal's combination of new tax rates, higher standard deductions, and cap on itemized deductions (discussed below) could affect your taxes, pull out your 1040 tax return from either 2015 or 2016 and complete the worksheet below. Then compare **line 6** (your tax computed using Trump's proposed three-tier tax rates and standard deductions) to **line 7** (your tax as computed on a prior 1040) to get a rough idea of how these tax proposals could impact you.

Line	Description		
1	<b>Adjusted Gross Income</b> – Enter the amount from line 38 on a prior 1040.		
2a	Deductions – Enter the amount from line 40 on a prior 1040.		
2b	Trump's Standard Deduction – Enter \$15,000 if filing as single or \$30,000 if married filing jointly.		
2c	<b>Deductions</b> – Enter the larger of line 2a or 2b.		
3	<b>Exemptions</b> – Enter the amount from line 42 on a prior 1040.		
4	Enter the sum of lines 2c and 3.		
5	<b>Taxable Income</b> – Subtract line 4 from line 1 and enter the difference.		
6	<b>Trump Tax</b> – Using Trump's tax-rate schedule above, enter the tax on the amount given in line 5.		
7	<b>Prior Tax</b> – Enter the amount from line 44 on a prior 1040.		

**Trump's Rate Schedule: Single**

Over	But Not Over	The tax is	Of the amount over
\$0	\$37,500	----- + 12%	\$0
\$37,500	\$112,500	\$4,500 + 25%	\$37,500
\$112,500	----	\$23,250 + 33%	\$112,500

**Trump's Rate Schedule: Married Filing Jointly**

Over	But Not Over	The tax is	Of the amount over
\$0	\$75,000	----- + 12%	\$0
\$75,000	\$225,000	\$9,000 + 25%	\$75,000
\$225,000	----	\$46,500 + 33%	\$225,000

Trump also proposes capping itemized deductions at \$100,000 for single filers and \$200,000 for joint filers. This will generally affect wealthy taxpayers. Under current law, certain itemized deductions phase out for high-income taxpayers. It is unclear whether that provision will be replaced by the proposed cap on itemized deductions or whether both will apply. If the cap is adopted, the amount entered on line 2c of the worksheet above will be limited based on the proposed cap amounts.

Although this is not clear, Trump's proposals may include the elimination of personal exemptions. If true, this change would have the greatest effect on lower-income taxpayers because these exemptions are already phased-out for higher-income taxpayers. Those with large families could be impacted the most. If the personal exemptions are eliminated, the amount on line 3 of the worksheet above would be zero.

**Not the Whole Picture** - The tax-rate changes, higher standard deductions, and limitations on itemized deductions don't paint the whole picture of the proposal. It is unclear what will happen to the numerous credits available to lower-income taxpayers under the current tax system. Approximately 48% of all U.S. taxpayers pay no tax at all, and most of them actually receive money back on their returns as a result of refundable tax credits such as the earned income tax credit, the additional child tax credit, and the American Opportunity Tax Credit (a tuition credit).

The Republicans have started the process of appealing the Affordable Care Act (also referred to as the ACA or Obamacare), and now that they have majorities in both houses of Congress and control of the White House, we are bound to see some changes in this area. The health care marketplaces have already accepted insurance coverage for 2017, so it is doubtful that there will be any changes until 2018. However, Trump has vowed to overturn the ACA's 3.8% excise tax on net investment income; eliminating this tax would greatly benefit higher-income taxpayers.

It is probably too early to have a clear picture of future tax reforms, but change is sure to come. If you have questions about how your tax situation may be impacted, please give this office a call.