

What Trump's Tax Proposals Mean To You And Your Business

On April 26, 2017, with some fanfare, the Trump administration has provided information on proposed tax law changes, many of which mirror his previous tax policy statements. Although these proposals lack significant detail, here is what the president proposes and how it might impact your tax liability:

Business Tax Rates: Trump's proposal would cut the top rate on corporate taxable income from 35% to 15%. Presumably, the 15% rate would apply to all business income, including small family-owned businesses.

Individual Tax Rates – Under Trump's proposal there would only be three tax brackets, 10, 25, and 35%, down from the current seven tax brackets: 10, 15, 25, 28, 33, 35 and 39.6%. The brackets are applied in steps, so as a taxpayer's income increases the increase is taxed at increasingly higher rates. The table below illustrates the current 2017 tax brackets.

Filing Status	Single	Head of Household	Married Filing Jointly	Married Filing Separately
10%	\$9,325	\$13,350	\$18,650	\$9,325
15%	\$37,950	\$50,800	\$75,900	\$37,950
25%	\$91,900	\$131,200	\$153,100	\$76,550
26%	\$191,650	\$212,500	\$233,350	\$116,675
33%	\$416,700	\$416,700	\$416,700	\$208,350
35%	\$418,400	\$444,550	\$470,700	\$235,350
39.6%	\$418,401+	\$444,551+	\$470,701+	\$235,351+

The current proposal generally mirrors the rates Trump proposed while on the campaign trail. Under the previous proposal, for married taxpayers filing jointly, the lowest rate would apply to income less than \$75,000; the 25% rate would apply to income more than \$75,000 but less than \$225,000; and the 33% rate would apply to income of more than \$225,000. Brackets for single filers were 1/2 of joint filer amounts.

However, the income brackets where the rates apply have not been specified in the current proposal and are subject to negotiations with Congress. Regardless, the reduction of the top tax rate from 39.6 to 35% will provide a huge tax saving for wealthy taxpayers.

Standard Deduction – Trump originally suggested a standard deduction of \$25,000 for singles and \$50,000 for married couples. He has since toned that down and is now proposing to double the standard deduction, which is currently (2016) \$12,600 for a married couple filing jointly and \$6,300 for single taxpayers. Under Trump's proposal the standard deductions would increase to approximately \$24,000 for married couples and \$12,000 for single taxpayers. According to an estimate by the nonpartisan Tax Policy Center (TPC), 27 million (60%) of the 45 million filers who would otherwise itemize in 2017 would opt for the standard deduction. This change would generally provide a small tax benefit to lower-income taxpayers.

Itemized Deductions – During the campaign, Trump proposed limiting itemized deductions to \$100,000 for single filers and \$200,000 for joint filers, which would cause an increase in taxes for the wealthiest taxpayers and not impact middle-income taxpayers. However, the current proposal would do away with all itemized deductions except those that incentivize home ownership and charitable deductions. The theory is that the other deductions primarily benefit the wealthiest taxpayers. However, this would also have a

significant impact on other taxpayers as well. Here are a few examples of its effects:

- Medical deduction – Medical deductions would be eliminated, impacting seniors with significant medical costs during the year.
- State & Local Tax – Taxpayers living in states with income tax would no longer be able to deduct the state and local income taxes they pay.
- Employee Business Expenses – It would also eliminate the deduction for employee business expenses.
- Recreational Gambling – Those who gamble recreationally would have to pay taxes on all their winnings and would not be able to deduct losses.

Other Deductions – Under the Trump proposal, virtually all deductions other than retirement savings would be eliminated. If that is the plan, then presumably it would include moving deductions, educators' expenses, self-employed health insurance, student loan interest, and alimony paid. None of these changes would provide any significant benefit to the wealthy but would impact lower-income taxpayers.

Alternative Minimum Tax (AMT) – Trump would eliminate the AMT, which primarily impacts wealthier taxpayers.

Estate Tax – The proposal would also eliminate the estate tax, which applies to wealthy taxpayers with taxable estates in excess of \$5,450,000 (2016). The number of taxable estates in the U.S. per year is just over 10,000.

This proposal was presented as a one-page outline without any fundamental details. Assuming the proposal is not dead on arrival, expect significant changes to be made by Congress. For instance, the senators and representatives from states with income tax will certainly want to retain state income tax as an itemized deduction for their constituents, including both Democrats and Republicans. And of course, there needs to be replacement revenue for the cuts to avoid a national debt increase.

As the tax reform debate winds through Washington, rest assured we will stay on top of the latest proposals and final legislation. We will continue to keep you informed during this wild ride.