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Point of Interest

Third Quarter 2016

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The Newsletter from Trust Point's Wealth Management Group

Presidential Candidates' Tax Proposals

The campaign for president is heating up, and both major-party candidates are talking taxes. The nonpartisan Citizens for a Responsible Budget (CFRB) has published a comprehensive review of the tax proposals by Hillary Clinton and Donald Trump. These proposals are subject to change--and, of course, such things never end up passing into law exactly as they were presented during a campaign.

Tax proposals from Donald Trump

The Trump campaign proposes to lower marginal rates and reduce tax deductions. The proposal is slightly different from the recently released House GOP tax plan, although both propose to cut taxes on businesses and individuals.

1. *Standard deductions:* The existing $6,300 deduction will be increased to $25,000 for an individual or $50,000 for a couple. With this large increase in the standard deduction, at least 50% of American workers would pay no federal income tax.

2. *Individual income tax rates:* The Trump campaign proposes three brackets of 12%, 25%, and 33%. The Alternative Minimum Tax (AMT), estate tax, and 3.8% Medicare tax would all be repealed.

3. *Deductions:* The reduction in tax rates would be made possible by changing or eliminating many tax deductions. People in the lower brackets would receive most of their current deductions, but deductions would be substantially limited for taxpayers in the 33% bracket.

4. *Business taxes:* The top rate is reduced from the current 35% to 15%. The new, lower rate would be available to both regular corporations and pass-through entities, such as LLC's and Subchapter S corporations, which currently are taxed at personal tax rates. Additionally, U.S. corporations would be allowed a special 10% tax rate to repatriate foreign profits back to the United States.

Tax proposals from Hillary Clinton

The Clinton campaign says that the candidate hopes to "close corporate tax loopholes" and make the "most fortunate" (i.e., upper-income people) pay higher taxes.

1. *Tax deductions:* For upper-income people, tax savings via deductions will be limited to the rate of the 28% bracket. For example, a taxpayer in the 39.6% federal bracket who deducts home mortgage interest would save money at the 28% rate rather than the 39.6% rate.

2. *Capital gains tax:* Under the current system, short-term capital gains may be taxed at up to 39.6%, plus the 3.8% Medicare tax, for a total tax rate of 43.4%. Capital assets held over one year have a top rate of 23.8%. The Clinton proposal would require longer holding periods to get the low, long-term tax rate on capital gains.

3. *Minimum tax.* As has been proposed by businessman Warren Buffet, Clinton wants a 30% minimum tax on annual incomes over $1 million. Also, those who earn more than $5 million would face an additional 4% surtax on the excess amounts.

4. *Estate tax:* The current $5.45 million exclusion amount for estate and gift taxes would be reduced to $3.5 million. The 40% estate- and gift-tax rate will be increased to 45%.

5. *Business taxes:* There will be higher taxes on the oil and gas industry, and on some very large banks. Some partnerships and other pass-through small businesses would also see increased taxes, as their owners will be subject to the higher taxes on upper-income individuals.

Election Year and Stock Market

Clients often ask us about the potential impact of the elections on the stock market. History tells us that the stock market usually has performed better under Democratic presidents than Republicans. However, that trend has been heavily influenced by which party has control of Congress. This chart shows the historical returns of the Dow Jones Industrial Average from 1901-2016 under these different governing scenarios (per Ned Davis data source):

DJIA PERFORMANCE		
When U.S. Government has a:	% Gain / Annum	% of Time
Democratic President, Republican Congress	8.77	10.00
Democratic President, Split Congress	10.37	3.47
Democratic President, Democratic Congress	-7.17	34.59
Republican President, Republican Congress	7.03	22.56
Republican President, Split Congress	-4.25	10.43
Republican President, Democratic Congress	2.44	19.09

Tax Briefs / New IRS Regs

New Estate and Gift Valuation Rules

The U.S. Treasury Department and the IRS recently issued proposed regulations that would place new limits on the availability of estate- and gift-tax valuation discounts commonly used to transfer interests in illiquid family businesses. These proposals, if finalized in their current form, will have a huge impact on business owners wishing to transfer assets to heirs. We will spare you the details, but the bottom line is that the new regulations would make intra-family transfers of a family business more expensive.

The proposed regulations are subject to a 90-day public comment period and will not take effect until the treasury department considers the comments and holds a hearing on December 1, 2016. Thus, advisors have until at least December 1 to assist clients in making transfers under existing valuation methods before the proposed regulations become final.

If you own a business, it is vital to be aware of these proposed regulations. Contact your Trust Point Relationship Manager to discuss the impact it could have on your business and your family.

New Basis Reporting Rules for Estates

When a person dies, the tax basis of property owned by the decedent gets a step up or down to equal the fair market value at date of death. The IRS has issued temporary regulations requiring basis reporting by the executors of estates that filed a Form 706 after August 1, 2015. The temporary regulation says that within 30 days of filing Form 706, executors of estates and others must furnish to both the IRS and to each beneficiary a new Form 8971 identifying the value of each interest. The reporting is intended to enable the IRS to verify that the basis claimed by a beneficiary who sells property acquired from a decedent is the same as the value of the property at the date of the decedent's death. However, these reporting requirements have been delayed several times since August 31 of last year, in response to numerous public comments.

Smaller estates that file Form 706 solely to elect portability of the unused exemption to the surviving spouse need not file the Form 8971, and therefore should not have to be concerned with these regulations.

Meet our Team

Pictured:

Left to right; Cassie Feller; Mark Chamberlain, JD, CPA; Randy Van Rooyen, CFA®;
Brenda Stuhr, CPA, CTFA; Debbie Seiler,
Seated; Dar Isaacson, CPA, PFS; Brian Koopman CFP®, CPA, CTFA and Janet Bahr, CTFA, (not pictured) Leslie Klinski

Wealth Management Services

- Investment Management
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- Philanthropic Services
- Operational Services

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