WHAT YOU NEED TO KNOW ABOUT PRESIDENT TRUMP'S TAX REFORM

"Could" Have Major Implications for Businesses & Individuals

When the Trump Administration revealed "core principles" of the President's tax reform plan last month, people were up in arms. While nothing is set in stone, and many changes may not go into effect until 2018 or later, there are some steps taxpayers should consider taking in advance of a major potential tax overhaul.

Tax rates. Trump's team has indicated a desire to simplify and streamline the tax bracket structure. The current seven individual income tax rates would be reduced to three: 12%, 25%, and 33%. Tax brackets (i.e., income levels at which these rates would apply) have not yet been determined. The business tax rate would decrease from 35% to 15% for corporations, and the top tax rate for pass-through businesses (e.g., partnerships, sole proprietorships) would be reduced from 39.6% to 15%. This makes the strategy of deferring income from one year into the next more important than ever, as deferred income may be taxed at the lower rate. This all depends, of course, on the final timing and structure of Trump's tax plan.

Potential loss of deductions. The lower tax rates and simplified brackets may also mean streamlining deductions. The proposed House GOP tax plan, for example, calls for the elimination of deductions for medical expenses, real estate taxes, employee business expenses, state and local income taxes, and more. At this time, there is no telling what the net effect will be, but it might be wise to accelerate deductions into the current tax year or risk losing them altogether.

The estate tax may be repealed. Currently, the U.S. has an estate tax with a top tax rate of 40% on taxable estates over $5.49 million per person. This means that couples realistically need a good bit more than $11 million before they become impacted as a few simple planning techniques can significantly reduce an estate tax bill. The GOP and Trump have spoken out about the federal estate tax and could potentially repeal it completely or even increase the exemption further from $5.49 million.

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3.8% Medicare surtax. Trump is adamantly trying to repeal the Affordable Care Act, but what will replace “Obamacare” is still unclear. One part of the ACA that may disappear is the 3.8% Medicare surtax on high income taxpayers. For this reason, taxpayers may wish to put off dividends, bonuses, property sales and other significant income events in the hope of avoiding the 3.8% surtax should the ACA be repealed.

Roth IRA conversions. Roth IRAs work well if the tax rate you’ll pay in retirement is high. But the Roth’s tax-free payouts will lose some of its luster if tax rates are reduced. You may wish to delay a decision on converting from a traditional to a Roth IRA until we see where the final tax rates fall under Trump. If you’ve already made the conversion, you have until October 16, 2017 to undo it.

At this point in time, all of this is pure conjecture. President Trump’s stated desire to simplify the tax code could, ironically, complicate tax planning in the short term. **It is in your best interest to seek the counsel and guidance of an experienced tax advisor to help you navigate the uncharted waters ahead. Contact Restivo Monacelli's Tax Department at 401-273-7600 to learn more.**