William Blair

Private Wealth Advisory

Post-Election Tax Planning Considerations for Investors

November's landmark U.S. elections may affect planning for high-net-worth investors in 2017 and beyond.

Every year it is important to assess your year-end tax situation and implement strategies that could lower your tax bill when you file your return in April. But given the results of November's landmark elections, in which Donald Trump was elected president and Republicans retained control of both houses of Congress, it is important to think about year-end planning in the context of how tax laws may change in 2017 and beyond.

In this paper, we examine President Trump's proposed tax policies and discuss how they could influence some financial decisions you might consider.

President Trump has proposed a series of tax law changes that, if enacted, could have a major impact on high-net-worth investors.

On the campaign trail and in the weeks since the election, Trump has outlined several changes to tax laws that could have a significant impact on high-net-worth investors in particular. It is important to keep in mind, however, that his tax proposals are, at this point, just that. They still have to go through the legislative process, and the ultimate outcomes are unpredictable. Congressional Republicans have put forth their own tax plans, and Democrats still have enough votes in the Senate to likely force compromises.

Nonetheless, you will want to familiarize yourself with Trump's proposals, as they have the potential to become law, in some form or another. While Trump has proposed wide-ranging changes to U.S. tax laws, here is an overview of the changes that would have the greatest impact on high-net-worth investors.

Ordinary income tax rates

Currently there are seven tax brackets. Trump has proposed reducing these to three: 12%, 25%, and 33%.[1] The following table compares current tax brackets and the income limits within those brackets to those proposed by Trump.

Investment-related taxes

Trump's plan keeps the current three-level rate structure of 0%, 15%, and 20% for long-term capital gains (on assets held longer than a year) and for "qualified" dividends (which generally include dividends paid by a U.S. company or a qualifying foreign company). However, these rates would have new income thresholds. For example, under current tax laws, the 20% rate takes effect at $466,951 of taxable income for married couples filing jointly and $415,051 for single filers, but under the Trump plan, the 20% rate would kick in at taxable income of $225,000 for couples and $112,500 for single filers. It is important to note, though, that Trump's proposal regarding capital gains varies significantly from the plan that House Republicans proposed in 2014 and have been advocating for since. Trump has also proposed eliminating the 3.8% Medicare surtax, which applies to investment income of taxpayers with a modified adjusted gross income of more than $200,000 for single filers and $250,000 for married couples.[2]

Itemized deductions
Trump proposes capping the value of itemized deductions at $100,000 for single filers or $200,000 for joint filers.[3] Also, under Trump's plan, personal exemptions are eliminated. Keep in mind, though, that high earners already have their personal exemptions phased out or eliminated, based on their income.

Standard deduction
Trump has proposed increasing the standard deduction from $6,300 to $15,000 for single filers and from $12,600 to $30,000 for married couples filing jointly.[4]

Alternative minimum tax
Trump has proposed eliminating the alternative minimum tax (AMT). Generally, most taxpayers subject to the AMT fall within the $200,000 to $500,000 income range.[5]

Estate and gift taxes
Trump has proposed eliminating estate and gift taxes and coupling this with an elimination of the step-up in basis for capital gains on inherited assets.[6] The 2016 estate and gift tax laws provide a $5.45 million exemption for individuals, which doubles to $10.9 million when combined with a spouse's exemption amount.

Federal Income Tax Brackets - Current vs. Trump Proposal

Single		Married, Filing Jointly	
Current Tax Rate *Taxable Income*	Trump's Proposal	Current Tax Rate *Taxable Income*	Trump's Proposal
10% *$0-$9,275*	N/A	10% *$0-$18,550*	N/A
N/A	12% *$0-$37,500*	N/A	12% *$0-$75,000*
15% *$9,276-$37,650*	N/A	15% *$18,551 - $75,300*	N/A
25% *$37,651-$91,150*	25% *$37,501-$112,500*	25% *$75,301-$151,900*	25% *$75,001-$225,000*
28% *$91,151-$190,150*	N/A	28% *$151,901-$231,450*	N/A
33% *$190,151-$413,350*	33% *$112,501 and above*	33% *$231,451-$413,350*	33% *$225,001 and above*
35% *$413,351-$415,050*	N/A	35% *$413,351-$466,950*	N/A
39.6% *$415,051 and above*	N/A	39.6% *$466,951 and above*	N/A

There is still plenty of time to implement strategies that can create significant tax savings.

The prospect of major tax law changes in 2017 adds a new element of uncertainty to this year's decision-making. William Blair will closely monitor the developments in Washington and, as the legislative process surrounding Trump's proposals comes into focus, we will keep you updated on how any new laws could affect you. In the meantime, please do not hesitate to contact us to discuss what any of the strategies or proposals outlined above may mean for your wealth management goals.

Washington Watch: What to Keep an Eye on in 2017

President Donald Trump and Republicans, who maintained control of both houses of Congress, have proposed a series of tax changes on the campaign trail and since the election.

The proposed changes from Trump's proposal that could have the biggest impact on high-net-worth investors include:

- Highest marginal income tax rate reduced from 39.6% to 33%
- Income threshold for 20% rate on capital gains lowered to $225,000 for couples and $112,500 for singles
- Value of itemized deductions capped at $100,000 for singles or $200,000 for joint filers
- Medicare surtax on investment income eliminated
- Alternative minimum tax eliminated
- Estate and gift taxes eliminated, as is the step-up in basis for inherited assets

Comparing Trump and House GOP Proposals

President Donald Trump is not the only Republican who has proposed changing tax laws. GOP leadership in the House of Representatives has rolled out a tax blueprint that is directionally similar to Trump's proposal but includes some key differences. These differences provide insight into what could be on the bargaining table once the legislative process begins. The table below compares some of the key elements of both proposals.

Income Tax Brackets and Rates

Issue	Trump Proposal	House GOP Blueprint
Ordinary income rates and tax brackets	12%, 25%, and 33%	Same as Trump
Net investment income tax (3.8%)	Repeal	Same as Trump
Long-term capital gains and qualified dividends	Retain current law (20% top rate)	Effective rates of 6%, 12.5%, and 16.5%
Interest income	12%, 25%, and 33%	Effective rates of 6%, 12.5%, and 16.5%

Pass-Throughs, Itemized Deductions, and Estate Tax

Issue	Trump Proposal	House GOP Blueprint
Pass-through income	15% rate available to S corporations and other pass-through entities that want to retain business profits Large pass-through entities subject to second-level tax on distributions	Top rate of 25% on business income from pass-through entities
Itemized deductions	Cap at $100,000 (single) or $200,000 (married)	Eliminate all deductions other than mortgage interest and charitable contributions
Estate tax	Repeal, but tax appreciated assets in excess of $10 million	Repeal

Keeping You Informed

William Blair is committed to helping you understand how legislative and regulatory changes could affect strategies related to estate and gift planning, income tax planning, portfolio management, and risk management.

Visit *williamblair.com/private-wealth-management* throughout the year for our analysis of the latest tax- and investment-related developments in Washington.

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[1] *Tax Foundation*, "Details and Analysis of the Donald Trump Tax Reform Plan, September 2016," September 19, 2016. http://taxfoundation.org/article/details-and-analysis-donald-trump-tax-reform-plan-september-2016; and *Forbes*, "President Trump: What Does It Mean for Your Tax Bill," November 9, 2016. http://www.forbes.com/sites/anthonynitti/2016/11/09/president-trump-what-does-it-mean-for-your-tax-bill/#178149604b8b

[2] *Tax Foundation*; and *The Wall Street Journal,* "What to Do Now Before the Tax on Capital Gains is Cut," November 25, 2016. http://www.wsj.com/articles/what-to-do-now-before-the-tax-on-capital-gains-is-cut-1480087278

[3] *Tax Foundation*

[4] *Tax Foundation*; and *CBS MoneyWatch*, "How Donald Trump's Tax Plan Could Affect Your 401(k)," November 21, 2016. http://www.cbsnews.com/news/how-donald-trumps-tax-plan-could-affect-your-1040/

[5] *Tax Foundation*; and *CNBC*, "How Advisors Are Preparing Clients for Trump's Tax Plans," November 22, 2016. http://www.cnbc.com/2016/11/22/how-advisors-are-preparing-clients-for-trumps-tax-plans.html

[6] *Tax Foundation*; and *CNBC*