913

YOUR FINANCIAL PLANNER

Will you win with Trump's tax code?

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We've heard the huzzahs about President Trump's tax changes, but little detail. Here's a synopsis by which you can consider some smart money moves. Hopefuls still think these changes might pass Congress and get signed into law this year. Most experts believe 2018 is more realistic.

Why do you care?

Let's say you're considering a large donation to that new building your church wants. It's more advantageous to make that in 2017, when your tax rate is higher, than in 2018 when your rate may be lower. (A $5,000 deduction at a 33 percent rate is worth $1,650; that only saves you $1,250 if Trump drops your tax rate to 25 percent, for example.)

Or let's say you have a loser of a stock you've assiduously avoided thinking about for months because you don't want to face how much you've lost. You would want to sell it in 2017 to maximize its offset value.

Let's walk through some of the basic proposals for a couple filing a joint tax return.

C. The tax brackets, which now range from 10 percent up to 39.6 percent, would be condensed into 12 percent, 25 percent, and 33 percent.

C. The standard deduction, currently $12,700, would jump to $30,000.

D. Personal exemptions, currently one for each taxpayer and dependent, would be eliminated.

D. Itemized deductions would be capped more stringently than now, at $200,000.

C. The alternative minimum tax, which forces 5 million middle- and upper-income folks to pay more, would be cut.

D. Long-term capital gains taxes would increase to 20 percent sooner, according to one source.

Here are some details.

Right now you pay 10 percent tax on income up to $18,650, and 15 percent tax up to $75,900. Under the new plan, you'd pay 12 percent up to $75,000, so little change. A couple earning $100,000 would pay about the same also.

Combining the standard deduction with personal exemptions favors couples with four or fewer children (or no children). The break-even occurs with child No. 5. Large families would have fewer net deductions with the new proposal.

D. The head of household (HOH) filing status would be gone, leaving the married-joint and single filing options. The HOH tax bracket favors single parents and any taxpayers with mom or dad under their roof as a dependent. A single parent with one dependent would lose $2,000 of deductions.

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The disadvantage grows with more dependents.

C. Part of Trump's proposal also allows families to deduct the average cost of childcare, which would ameliorate some of the above disadvantages.

Itemized deductions, used by most middle- and upper-income, are cut back now as much as 20 percent under the Pease limitations. Itemized deductions would simply be capped at $200,000 for couples and $100,000 for singles. So those with huge tax bills, with huge mortgages on that second home, with huge gifts (think collectible art pieces) to charities will need to plan carefully.

Large gifts to charities currently enjoy a charitable gift carry-forward which can defer those deductions to future years if all of the deduction cannot be taken in the current tax year due to the 30 percent and 50 percent limits. There's no word on whether this would be allowed under Trump's law. If the carry-forward is not revitalized and if you have large charitable intentions, you'll need to plan better and gift annually, rather than in large lump sums.

Now let's examine capital gains rates. Here's a sleeping dog. Currently, if your taxable income is less than $75,900, you don't pay tax on long-term capital gains. That's a great gift and it remains roughly the same under Trump's plan. If you're single, your breakeven point is $37,951.

D. But, if you're making more, up to $470,700, today you pay a 15 percent tax on your long-term capital gains. Under Trump's plan, you'll stay at 15 percent if you make up to $225,000. However if your taxable income ranges over $225,000, you'll see an increase to 20 percent. Some two-earner couples may get caught in that section. Single taxpayers pay 15 percent now up to $418,400; that'll jump to 20 percent the minute you get to $112,500 so you'll pay more sooner.

C. Offsetting some of that would be the elimination of the 3.8 percent Medicare Surtax on net investment income. That hit high-income payers at incomes of $250,000 level (joint) and $200,000 (single).

C The Childcare tax credit of $3,000 per dependent, up to $6,000, starts phasing out at income of $15,000. Trump's plan would change that to an above-the-line deduction for dependent care expenses and increase the earned income tax credit.

Finally, the estate tax would change. We now enjoy step-up in basis, where an asset we inherit is "stepped up" to the market value on date of death. When we sell it the following day, there's virtually no capital gain. Trump would eliminate the estate tax but toss out that free step-up in basis. Those capital gains would be recognized at death. Estates exceeding $10 million (couples) or $5 million (single) would pay capital gains taxes at that point.

What are the probabilities this really happens? President Trump's batting average thus far is 0 for 2, if you consider only the travel ban and the effort to repeal the ACA. On the other hand, Paul Ryan, now speaker of the House, previously served as Chairman of the House Ways and Means which governs taxes. The proposed tax changes under Ryan are similar to those advocated by President Trump, so powerful forces have aligned along some of these fronts.

We're likely to see something and we know enough now to implement some strategies in 2017 that will be advantageous whether or when new tax laws are passed.

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