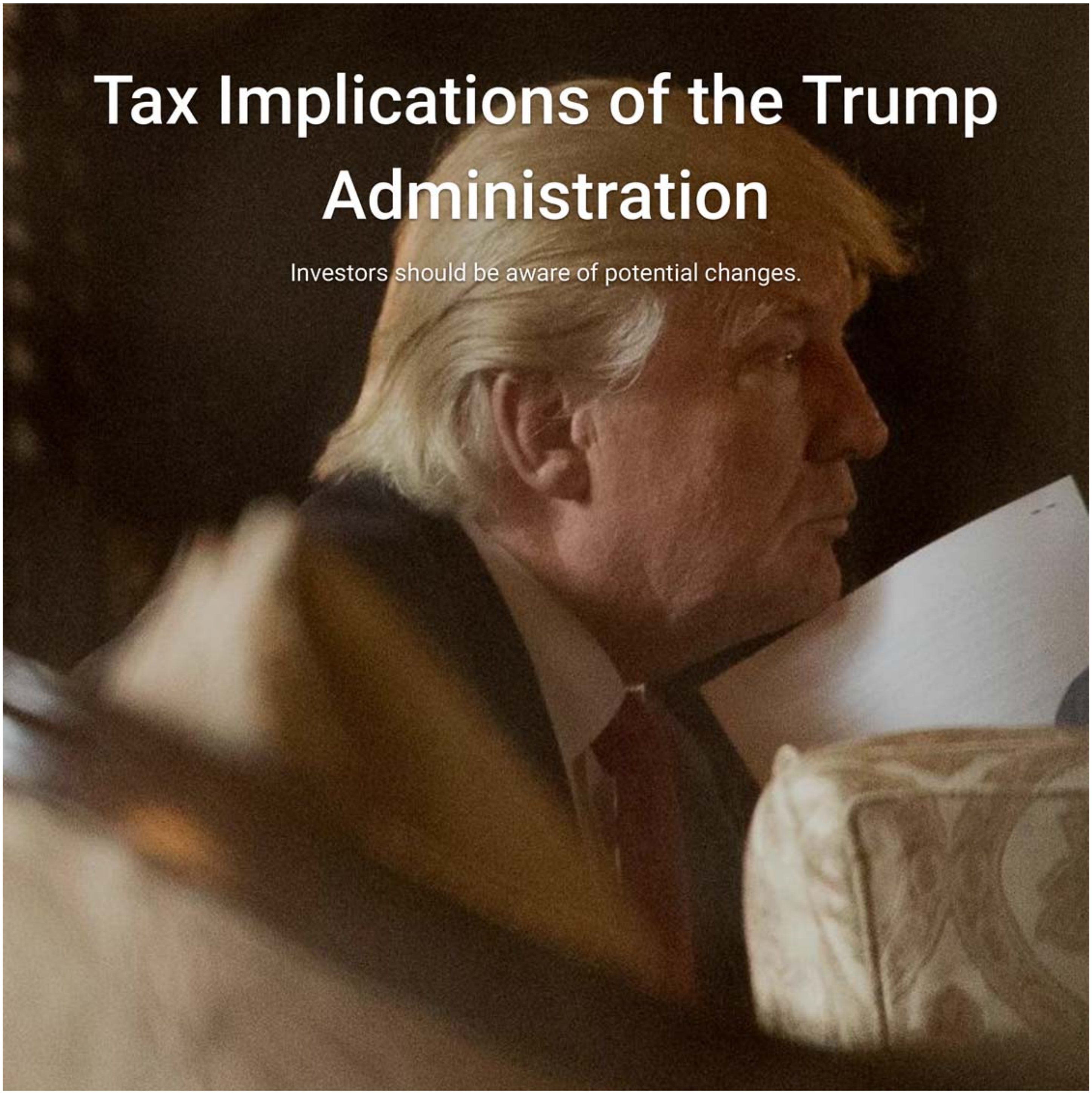

Tax Implications of the Trump Administration

Investors should be aware of potential changes.

By Dawn Reiss | Contributor

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Dave Du Val, chief customer advocacy officer at TaxAudit.com in Sacramento, California, jokes that trying to understand tax code is like playing a game of Sudoku.

Depending on what laws are passed and how they are changed, the codes can fit into a variety of different places, he says.

"Congress can vote on something and implement something retroactively," Du Val says. "Nothing is final until it's final and even then it's not final."

Many financial experts say given the current positions of the Trump administration and Republican Congress, tax rate cuts – both on the individual and corporate side – seem

"We are facing tremendous uncertainty regarding the inception date, duration and extent of these tax cuts," says Lisa Whitcomb, managing director and director of wealth strategy at Glenmede Trust in Philadelphia.

According to the Tax Policy Center, which is affiliated with the Urban Institute, Trump's proposal "would cut taxes at all income levels, although the largest benefits, in dollar and percentage terms would go to the highest income households."

"It's clear the wealthy will do better under the Trump system," Du Val says.

Right now, the Affordable Care Act impacts high-income taxpayers who are charged the net investment income tax, a 3.8 percent levy that applies to individuals who make more than $200,000 a year and $250,000 for married joint filers. While what type of replacement is involved in the "repeal-and-replace" discussions, Du Val says it's not expected to tax the wealthy as much.

Another big change is the individual income tax brackets. Instead of having seven, Trump has proposed three – 12, 25 and 33 percent. The biggest reductions go to the wealthiest. Those who make more than $415,000 will be taxed at 33 percent, a reduction of 6.6 percent when compared to the current 39.6 percent rate.

Trump also wants to eliminate personal exemptions – something high earners don't deduct as they are phased out – but itemized deductions would be capped at $200,000 for married couples and the head of household filing status would be eliminated.

The increased standard deduction won't offset the amount many single parents could have deducted if they had personal exemptions. "It's a big change and could be catastrophic for some families," Du Val says.

A Tax Policy Center report written by Lily Batchelder, a tax law professor at NYU and former deputy director of the White House National Economic Council, says Trump's plan would increase taxes for about 20 percent of households and more than half of single parents will pay more.

Trump's plan relies on "trickle-down" benefits that focus on increasing spending enabled by business tax cuts. "We've already seen that it doesn't work," Du Val says. "The wealthy just get wealthier and nothing trickles down."

Whitcomb says business owners "may want to defer discretionary capital asset acquisitions until we have more certainty, as some capital expenses may become fully deductible under new tax law."

Whitcomb also recommends postponing personal income tax where possible to 2017 or 2018 when rates may be lower, and refraining from most Roth individual retirement account conversions.

"Consider re-characterizing earlier 2016 conversions, any time before you file your 2016 federal income tax return," Whitcomb says. "You may be able to do the conversion in a year or two at a lower tax rate."

Currently businesses pay a 35 percent tax, but Trump wants to cut that to 15 percent while eliminating many business deductions. Instead of depreciation over multiple years, Robert W. Wood, a tax lawyer in San Francisco**,** says the idea is to expand the upfront tax write-offs for a more immediate impact. For S corporations, limited liability companies and partnerships, Wood says companies taxed at 39.6 percent or even 43.4 percent on flow-through business income could see their tax rate slashed to 15 percent.

"Initially you'll see some companies report write-downs on their balance sheets for so-called deferred tax assets," says Helena Klumpp, deputy editorial director at Bloomberg BNA in Arlington, Virginia.

Investors should look for industry specific outcomes, Klumpp says, since a lower federal tax rate will differ based on what subsidies are cut, such as wind and solar power. Investors should also consider how much a proposed "border tax" affect firms like Wal-Mart Stores (ticker: WMT) that import many products and may have to charge higher prices for everyday goods.

Trump's proposal includes a "tax holiday" for offshore funds where major corporations who have large amounts of money outside of the U.S. held at a lower tax rate can bring it back to the U.S.

"Right now, certain corporate structures and so-called 'corporate inversions' allow earnings to remain outside the U.S., and the result is a massive loss of investible capital for the domestic market," says Dan Doran managing director and founder of Quantive Valuations in McLean, Virginia.

Under Trump's proposal global corporations such as Apple (APPL), Microsoft Corp. (MSFT), Pfizer (PFE), Exxon Mobile Corp. (XOM), and General Electric Co. (GE) would pay a 10 percent tax on untaxed offshore profits. With an estimated $2.4 trillion held by Fortune 500 companies offshore, according to Citizens for Tax Justice, a think tank in

Washington, these companies owe an estimated $700 billion and would pay taxes of approximately $150 billion under the proposal.

Many investors are waiting to see if the estate tax is repealed or replaced. Currently, individuals can pass $5.49 million to their heirs tax-free free of the "death tax," (double for married couples) but beyond that, investors have to pay a 40 percent estate tax, independently of anything paid in income taxes, Whitcomb says.

If the estate tax is repealed, Trump's proposal removes the step-up in basis at death, and imposes capital gains tax on the appreciation of inherited assets for an estate valued more than $10 million.