HORAN CAPITAL ADVISORS

Commentary

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**2017 Income Tax Proposals** **Anna Pfaehler, CFP® – Director of Planning**

Income tax reform is perpetually a political football. With Republicans in control of both the legislative and executive branches of government, we will likely see substantial income tax changes in 2017. HORAN Capital Advisors is reviewing how our clients may be affected and the following is an overview of what we may see in the next year.

While an overhaul of the tax code appears high on Washington's agenda, there are differences in proposals from president-elect Donald Trump and the House. Both agree on condensing and lowering ordinary income tax brackets. The proposals would reduce our current 7-tier system to a 3-tier system; with the top marginal rate at 33% instead of 39.6%. The highest bracket would start at $225,000 for a married couple. The prospect for lower income tax rates in the future makes income deferral, such as contributions to a deferred compensation or qualified retirement plan, more attractive today.

The tax treatment of investment income may also change. Trump proposes keeping the current capital gains tax rates of 0%, 15%, and 20% but corresponding to the 3 ordinary income tax brackets. Note that under Trump's plan more people would be subject to the 20% rate than currently.

However, the House proposes a 50% exclusion for all investment income, including interest, and taxing the remainder at ordinary rates. Another way to view this is taxing investment income at ½ the rate of ordinary income – a big break to many investors.

Both Donald Trump and the House want to do away with Net Investment Income Tax. Those subject to this 3.8% tax may want to try to defer investment income into 2017.

In general, whether to take gains off the table in 2016 or wait until 2017 is a tricky decision and would depend on your current income tax bracket and whether you think Donald Trump or the House is more likely to prevail. Those who would pay 0% on gains now should consider harvesting gains, as deferral would not produce a better outcome under either proposal. However, the adage "never let the tax tail wag the investment dog" still holds true.

Changes will likely be made to itemized deductions. Trump proposes caps on total itemized deductions, whereas the House would like to eliminate all deductions except mortgage interest and charitable contributions. Either system would favor accelerating itemized deductions into 2016 when they may be more advantageous; however, you should consider whether you are subject to Alternative Minimum Tax (AMT) before doing so. Individuals planning large charitable gifts should be particularly concerned about a potential cap on itemized deductions which would limit the income tax benefit of their giving. Elimination of the AMT, gift tax, and estate tax are also possibilities.

The Democrats will have a viable defense in this game through filibusters. Republicans will need to work with Democrats in order to pass lasting changes to the tax code unless they use sunset provisions similar to the Bush tax cuts of the 2000s.

All of these changes are speculative and have not been enacted. How proposed changes may affect any individual depends on personal circumstances. We recommend consulting your accountant or tax advisor to discuss how these changes could specifically affect you before taking any action.

We in the stands are watching closely to see how tax reform plays out in 2017 and importantly, what it means for our clients' investments and financial planning. We will continue to update you on any changes so that you are able to make informed decisions about your wealth.

Respectfully,

HORAN Capital Advisors

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