



A Closer Look at the Trump Tax Plan

Tax planning could prove to be a challenging task in the year ahead. With ambitious tax reform proposals on the table from both President-elect Donald Trump and the Republican-led Congress, it appears all but certain that the tax landscape is about to change. The question is when, how, and by how much.

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If Congress approves even a fraction of Trump's lengthy tax wish list, be prepared for some significant changes that may affect your situation.

Individual Income Tax Overhaul

Both Trump and the House Republicans call for paring income tax brackets from the current seven down to three: 12%, 25%, and 33%. According to analysis conducted by the Tax Policy Center, the Trump plan "would cut taxes at every income level."¹ Overall, the plan would cut the average tax bill by \$2,940 in 2017, increasing Americans' after-tax income by 4.1%. However, the highest income taxpayers (0.1% of the population) would experience an average tax cut of nearly \$1.1 million, or more than 14% of after-tax income. Households in the middle of the income spectrum would receive an average tax cut of \$1,010, or 1.8% of after-tax income, while the bottom fifth of households would see their taxes go down an average of \$110, or 0.8% of their after-tax income.¹

In addition to downsizing income tax brackets, the Trump plan would eliminate the 3.8% tax on net investment income created during the Obama administration to help fund the Affordable Care Act. Capital gains and dividends would continue to be taxed at their current rates.

New Tax Filing Considerations

The Trump plan would raise the standard deduction for tax filers to \$15,000 up from \$6,350 for singles and \$30,000 up from \$12,700 for married taxpayers filing joint returns. It is estimated that if this provision were to become law, 60% of the 45 million filers who would otherwise itemize in 2017 would opt for the standard deduction.¹

Notably, the plan also proposes to cap itemized deductions at \$100,000 for individuals and \$200,000 for married couples. Other key changes called for include eliminating the head of household filing status, often used by single-parent families, as well as the personal exemption, which stands at \$4,050 for tax years 2016 and 2017. Due, in part, to these provisions, an analyst from the Tax Policy Center stated that the Trump plan would potentially "boost taxes for many families, with some of the largest increases applying to single-parent families."²

An Emphasis on Child Care

Caregiving expenses are a major focus of Trump's tax reform proposal. He has called to make childcare expenses (for children under the age of 13) tax deductible up to the average cost per state. The new tax benefit would apply to individuals earning less than \$250,000; double that income threshold for married couples.³ The deduction would apply to up to four children per taxpayer.

Elsewhere on the family front, Trump has proposed dependent care savings accounts. Contributions of up to \$2,000 per year would be tax deductible and taxes on any earnings would be deferred and potentially tax free if used to pay for child care, education, or other enrichment programs. As an incentive to lower-income families, the government would "match" \$500 on the first \$1,000 contributed by the family.³

The Business Community

The tax proposals that potentially represent "the biggest bang for the buck" are those outlined for the business community. Trump calls for slashing the top corporate tax rate from 35% to 15%. Importantly, he would also allow owners of so-called "pass-through" entities -- sole proprietorships, partnerships, s-corporations -- to elect to be taxed at the 15% flat rate on their pass-through income rather than at regular individual income tax rates (the top rate now is 39.6%; under Trump's proposal it would be 33%). According to the Tax Policy Center the Trump plan does not specify rules prohibiting or limiting wage earners from redefining themselves as sole proprietors or other pass-through businesses in order to benefit from the proposed 15% business tax rate.¹ The proposal also eliminates most business deductions and elects to allow companies to expense business investments up front rather than depreciate them over several years, as current law requires.

Estate Taxes and AMT

The Trump plan calls for the repeal of estate, gift, and generation-skipping taxes, but capital gains exceeding \$5 million -- \$10 million for couples -- held until death would be taxed. The plan would also do away with the AMT, or alternative minimum tax -- a parallel system for calculating federal income tax that applies to certain individuals, corporations, estates, and trusts that have exemptions or special circumstances allowing for lower payments of standard income tax.

The Impact on National Debt

While economists are in disagreement as to whether the Trump plan would be good for the economy, the Tax Policy Center estimates that without corresponding spending cuts, and factoring in the added interest costs that would accrue, the Trump plan would cause the national debt to rise by at least \$7 trillion over the first decade, and by at least \$20.7 trillion by 2036.¹

Time Will Tell

Clearly Trump's tax vision is ambitious. How much -- if any -- of his plan will become law is pure speculation at this point. For now, the nation is in a wait-and-see mode as the new administration takes office later this month and sets about the work of implementing its plans, including its tax agenda.

To learn more about the Trump tax plan visit the Tax Policy Center website listed below or speak with a qualified tax professional.

¹Tax Policy Center, "[An Analysis of Donald Trump's Revised Tax Plan.](#)" October 18, 2016.

²NPR.org, "[Who Benefits from Donald Trump's Tax Plan?](#)" November 13, 2016.

³CNBC, "[Trump's plan to help middle class using child-care tax breaks.](#)" December 1, 2016.