

Presidential Candidate Tax Proposals and the Sunsetting of The Tax Cuts and Jobs Act

HOW TAX CHANGES CAN IMPACT YOU

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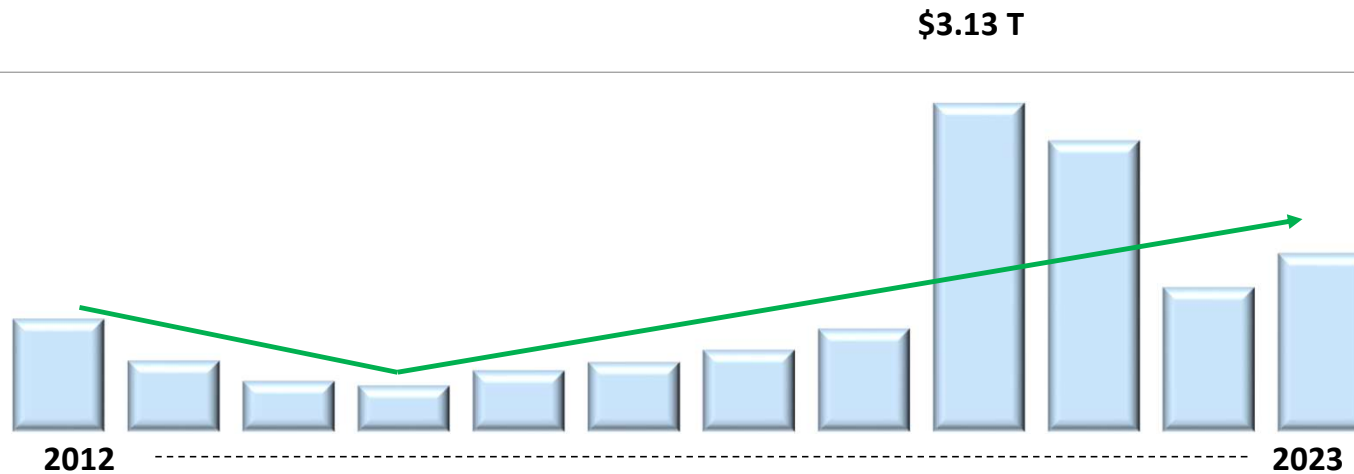
AGENDA

- Presidential Candidates Tax Proposals
- What Happens if Current Rates/TCJA Expire?
- Investment Implications and Opportunities

Sources

- ✓ Budget Of The United States Government
- ✓ Congressional Budget Office
- ✓ General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024)
- ✓ Tax Foundation
- ✓ CATO Institute
- ✓ Internal Revenue Service
- ✓ The “Tax Cuts and Jobs Act”; December 22, 2017

Increasing Budget Deficits



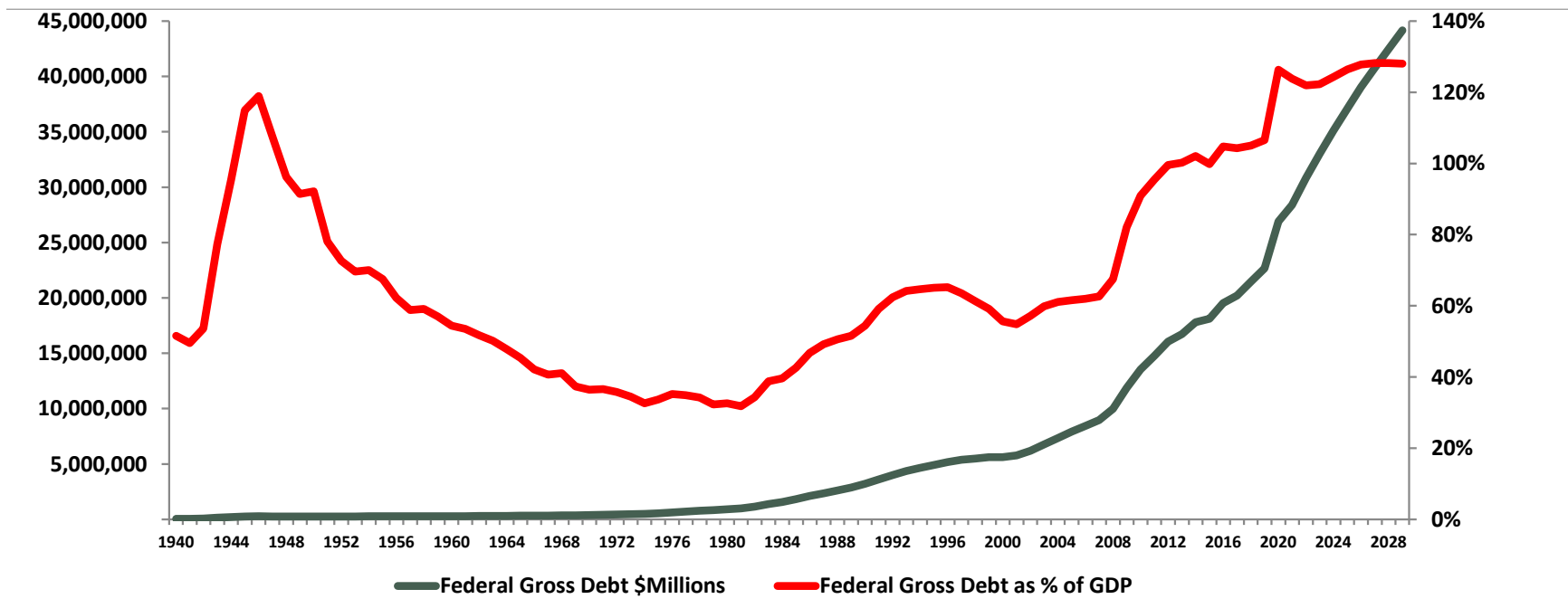
**The federal budget deficit for 2020 was a record \$3.13 trillion.
In 2021*, deficit was \$2.8 trillion. In 2022*, \$1.4 trillion,
and \$1.7 trillion in 2023.****

* Budget Of The United States Government, FY 2024 Table 14.6 - Total Government Surpluses Or Deficits 1948 - 2022

** Congressional Budget Office, *Monthly Budget Review: September 2023*; October 10 2023

U.S. Debt

Legislation has not been sufficient to reduce national debt

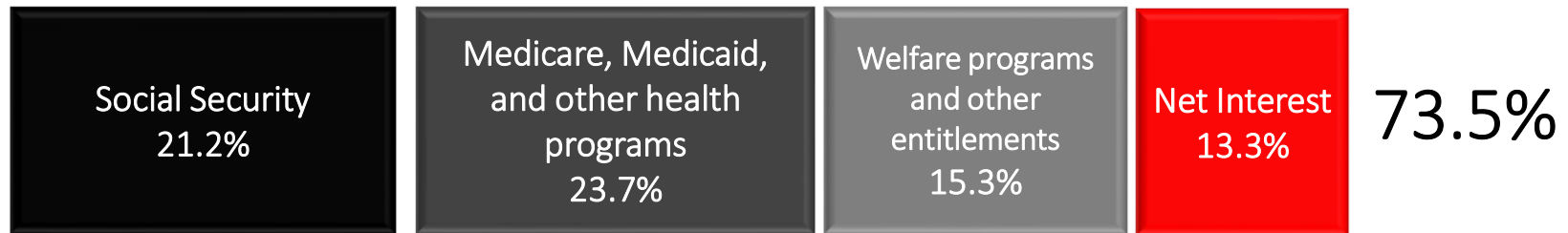


Source: Budget of the United States Government, FY 2025, Historical Tables (Table 7.1—FEDERAL DEBT AT THE END OF YEAR: 1940–2029)



In 2025, 73 Percent Of All Federal Spending Will Be Mandatory

Mandatory Spending

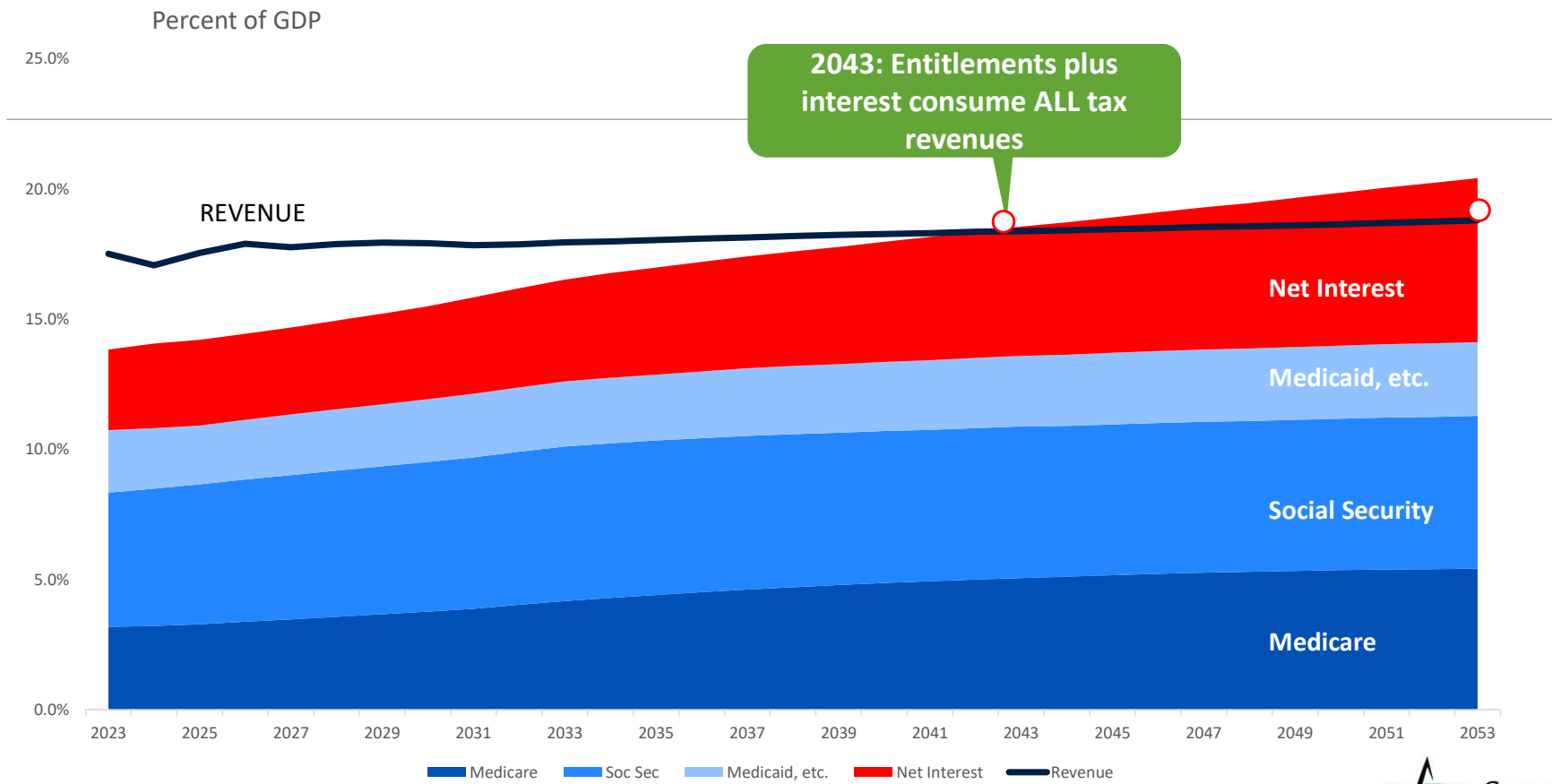


Everything Else



Source: Budget of the United States Government, FY 2025, Historical Tables. Table 8.5 "Outlays for Mandatory and Related Programs, 1962-2029"; Table 8.7 "Outlays for Discretionary Programs, 1962-2029"; numbers not exact due to rounding.

By 2043, Entitlements And Interest Consume All Revenue



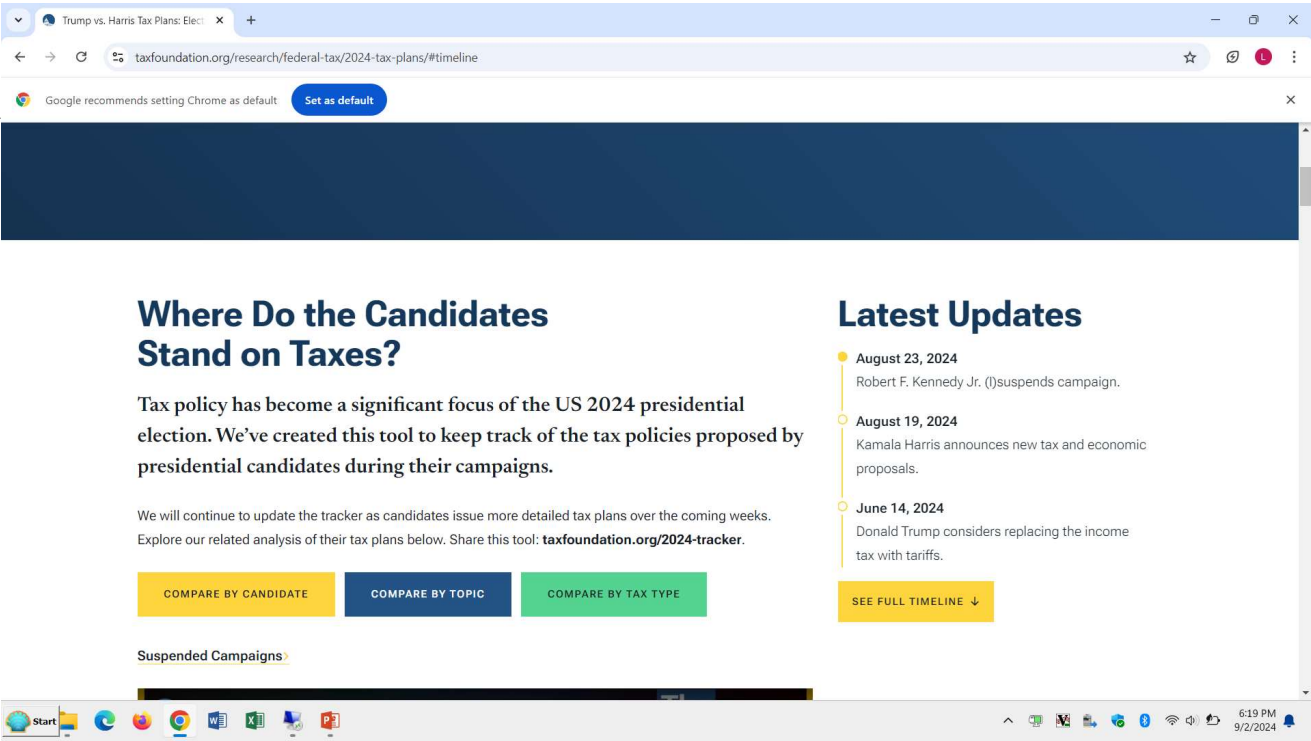
Source: The Congressional Budget Office; Budget and Economic Data; Long-Term Budget Projections, Supplemental Table 1: Summary Data for the Extended Baseline; March 2024; Accessed April 2024

Words of Wisdom

“We don’t have a trillion-dollar debt because we haven’t taxed enough; we have a trillion-dollar debt because we spend too much.”

-Ronald Regan

https://taxfoundation.org/research/federal-tax/2024-tax-plans/#timeline



The Tax Foundation is the nation's leading nonpartisan tax policy 501(c)(3) nonprofit. For over 80 years, our mission has remained the same: to improve lives through tax policies that lead to greater economic growth and opportunity.



Income Tax Proposals

Harris Proposal

- **Increase the Top Income Tax Rate**
 - 39.6% for income over \$400,000 (single) \$450,000 (joint)
 - Down from \$609,350 (single) \$731,200 (joint)
- **No tax on tips for certain professions**
- **Tax credits: Childcare-tiered \$6k, \$3.5K, \$3K**
- **Expand earned income, premium and housing tax credits**
- **Increase start-up deduction to \$50,000**

Trump Proposal

- **No changes to the Top Income Tax Rate**
- **No tax on tips or overtime pay**
- **No tax on Social Security benefits**
- **Increase childcare credit to \$5K**
- **Reinstate an unlimited itemized deduction for state and local taxes (SALT) paid or discontinue the cap**
- **Make the Tax Cuts and Jobs Act permanent**

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024) and The Tax Foundation website October 1, 2024

Investment Tax Proposals

Harris Proposal

- **Increase Tax Rate on Qualified Dividends and Long-Term Capital Gains**
 - Taxed at 28% rates taxpayers with income over \$1 million
- **Minimum Tax on Wealthiest Taxpayers (“Billionaires Tax”)**
 - 25% minimum tax on total income, including unrealized capital gains, for those with over \$100 million
 - Minimum tax will be treated as a prepayment credited as subsequent tax on realized gain
 - Complexity of valuing unsold property annually, especially privately held businesses

Trump Proposal

- **No changes on qualified dividends and long-term capital gains rates**
- **No minimum tax on wealthiest taxpayers**

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024) and The Tax Foundation Website October 1, 2024



Investment Tax Proposals (continued)

Harris Proposal

- **Increase Net Investment Income Tax rate and add non-passive income (Medicare Surtax)**
 - 5% for those making over \$400,000.
- **Tax carried interests as ordinary income for investment service partners with income exceeding \$400,000**
- **Limit Section 1031 exchanges to \$500,000**

Trump Proposal

- **No increase on Net Investment Tax (Medicare surtax)**
- **No changes to tax carried interest**
- **No limit on 1031 exchanges**

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024) and The Tax Foundation Website October 1, 2024

Retirement Related Tax Proposals

Harris Proposal

- **Required Distributions for Large Retirement Accounts**
50% distribution exceeding \$10M. Lesser of amount exceeding \$20M or amount held in Roth account
- **No Back Door Roth Conversions**
- **No “Mega” Back Door Roth Conversions**
- **No Roth Conversion of High-Income Taxpayers**
\$400,000 (single) or \$450,000 (joint)
- **Limit retirement contributions for high income earners**

Trump Proposal

- **No required distributions for large retirement accounts**
- **No changes to:**
 - **Back door Roth conversions**
 - **Mega back door Roth Conversions**
- **No cap on Roth Conversions based on income**

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024) and The Tax Foundation Web site October 1, 2024.



Estate Tax Proposals

Harris Proposal

- **Sunset TCJA Estate and Gift Tax Exemptions**
- **Limit Annual Gift Exclusion**
 - Go from currently unlimited total (based on \$18,000 per donor per donee) to \$20,000 per donor total (gift per donee limited to \$10,000)
- **Transfers of Appreciated Property**
 - Treat transfers of appreciated property by gift or on death as taxable
 - \$3,500,000 Exclusion
 - Increase the estate tax rates to 55%, 60% and 65%
- Carry over basis for transfers to spouse
- **Grantor Retained Annuity Trusts**
 - GRAT would be required to have a minimum term of 10 years
 - Remainder interest equal to or greater than 10% of the value of the assets transferred to the trust.

Trump Proposal

- **Make permanent TCJA Estate and Gift Tax Exemptions**
- **No limits on annual Gift exclusions**
- **No changes to:**
 - **Transfer of appreciated property**
 - **Retained annuity trusts**

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024), The Tax Foundation Web Site October 1, 2024 and Senator Warren's American Housing and Economic Mobility Act of 2024

Estate Tax Proposals (Continued)

Harris Proposal

- **Grantor Trusts**
 - Grantor trusts that are not fully revocable, sales between the grantor and the trust would be taxable
 - Grantor's payment of the income tax would be treated as a taxable gift
 - Add new code section 2901 ending the use of new grantor trusts
- **Add new code section 2705(a) that would limit discounts by reason of family control and section 2705(b) would limit the discount on the transfer of non-business assets**
- **Impose the generation skipping transfer tax on transfers to anyone three generations below the transferor of the trust.**
- **Implement a 10% surtax on estates over \$1billion**

Trump Proposal

- **No changes to:**
 - **Grantor Trusts**
 - **Valuation discounts on transfers of business interests**
 - **Duration of "Dynasty" generation skipping**

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024) and The Tax Foundation Web Site October 1, 2024. and Senator Warren's American Housing and Economic Mobility Act of 2024

Business and Excise Tax Proposals

Harris Proposal

- **Increase Corporate Tax Rate to 28%**
- **Expand Net Investment Income Tax to Nonpassive Business Income**
 - Nonwage earnings of high-income pass-through business income (S-corporations/partnerships)
 - Phased in at \$400,000-\$500,000¹
- **Increase Stock Buy Back Excise Tax to 4%**

Trump Proposal

- **Lower Corporate Tax Rate to 20%**
- **Lower Corporate Tax rate to 15 percent for companies that make their products in the US**
- **Universal Baseline Tariff on All US Imports 10%-20%**
- **60% Tariff on US Imports from China**
- **Tax large private University endowments**

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024)

1. Phase-in increases linearly from 0% to 100% as AGI rises from \$400,000 to \$500,000 (both Single and Married Filing Jointly), and from \$200,000 to \$250,000 for Married Filing Separately

Trump Proposal: Tax Foundation Web Site October 1, 2024.



What Happens if Current Rates/TCJA Expire?

Impactful Changes if TCJA Sunsets:

- **Tax rates increasing for most taxpayers**
- **Deductions dropping nearly in half for many taxpayers**
- **The \$10,000 limit on state and local taxes (the SALT deduction) will be removed**
- **The Alternative Minimum Tax (AMT) makes a comeback**
- **Limitation on itemized deduction will end**
- **The Personal Exemption makes a come back**
- **The Personal Exemption Phaseout making a comeback too**
- **The elimination of the 20% Qualified Business Income Deduction**
- **The unified gift & estate tax exemption dropping by half**

Income Rates after the Sunset of TCJA

Most will see an increase in their tax rates, including the return of the 39.6% top tax rate.*

FILING SINGLE		
Income	2024 Tax Rate	2026 Tax Rate
\$0 - \$11,600	10%	10%
\$11,601 - \$47,150	12%	15%
\$47,151 - \$100,525	22%	25%
\$100,526 - \$191,950	24%	28%
\$191,951 - \$243,725	32%	33%
\$243,726 - \$609,350	35%	35%
Above \$609,350	37%	39.6%

MARRIED FILING JOINTLY		
Income	2024 Tax Rate	2026 Tax Rate
\$0 - \$23,200	10%	10%
\$23,201 - \$94,300	12%	15%
\$94,301 - \$201,050	22%	25%
\$201,051 - \$383,900	24%	28%
\$383,901 - \$487,450	32%	33%
\$487,451 - \$731,200	35%	35%
Above \$731,200	37%	39.6%

Source: General Explanations Of The Administrations Fiscal 2025 Revenue Proposals (March 11, 2024)

* Brackets expressed in 2024 dollars.



Standard Deductions Dropping Nearly in Half

Filing Status	Today - 2024	Deduction in 2026*
Single	\$14,600	\$8,300
Married Filing Jointly	\$29,200	\$16,500

- After sunset of TCJA - estimated 2026
- CATO Institute, 2026 Tax Increase chart: 12/13/2023



The Cost Of Higher Taxes Rates & Lower Standard Deductions

AGI	\$100,000		\$250,000		\$500,000	
	2024	2026 (After TCJA)	2024	2026 (After TCJA)	2024	2026 (After TCJA)
Standard Deduction	\$29,200	\$16,500*	\$29,200	\$16,500*	\$29,200	\$16,500*
Taxable Income	\$70,800	\$83,500	\$220,800	\$233,500	\$470,800	\$483,500
Tax	\$8,032	\$11,365	\$39,077	\$48,759	\$106,029	\$123,739
Tax Increase		\$3,333		\$9,682		\$17,710
Top Marginal Bracket	12%	15%	24%	28%	32%	33%
Effective Rate	8.03%	11.37%	15.63%	19.50%	21.21%	24.75%

Table assumes married couple not yet age 65 filing jointly taking available personal exemptions and standard deduction

* Estimated 2026 figures. Assumes brackets from slide 14, expressed in 2024 dollars. Married filing jointly not yet age 65 taking standard deductions.



Alternative Minimum Tax (AMT) Will Make A Comeback

	Today - 2024	After Sunset – 2026*
Exemption Amount	\$133,300 (Joint) \$85,700 (Single)	\$109,900 (Joint) \$70,600 (Single)
Phaseout	\$1,218,700 (Joint) \$609,350 (Single)	\$209,300 (Joint) \$157,000 (Single)

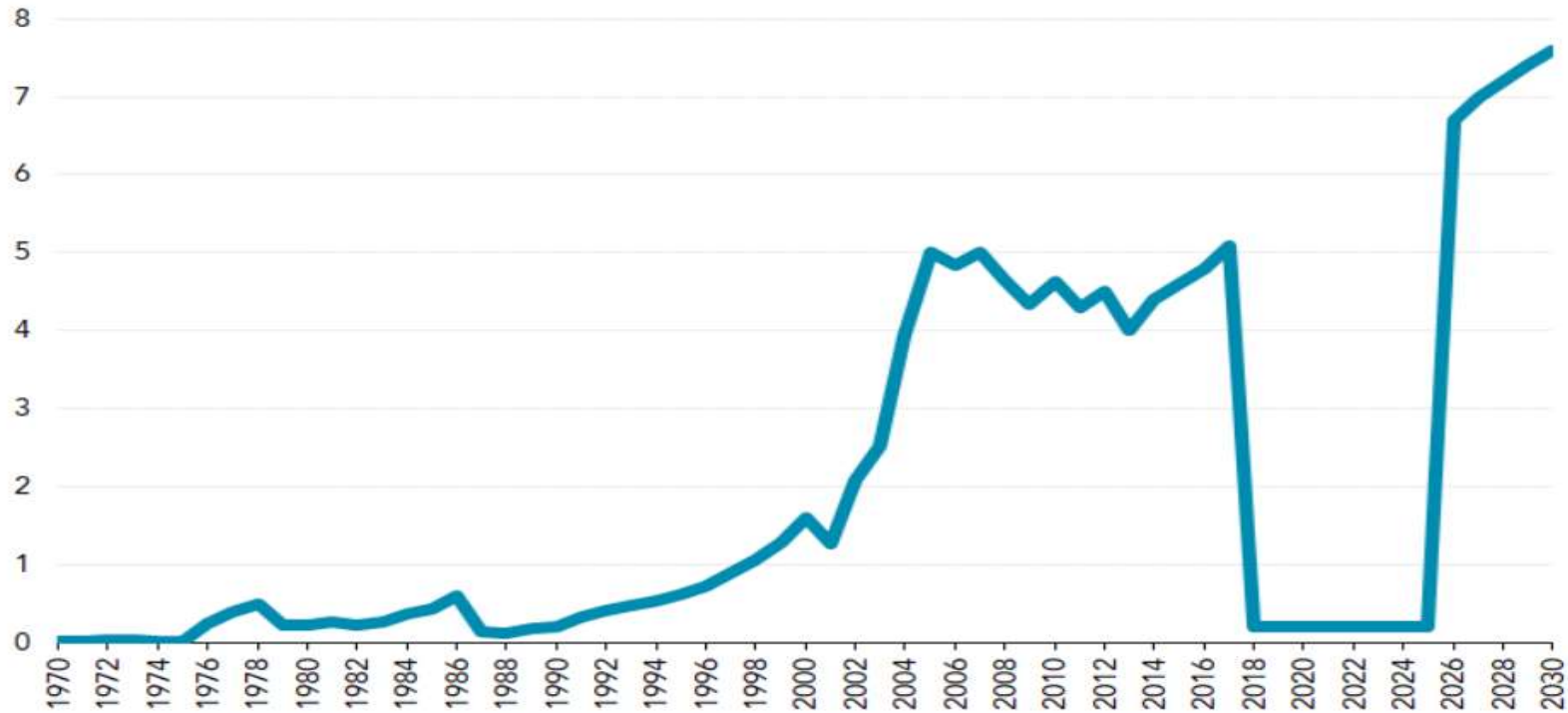
AMT removes deductions for items such as State & Local Taxes, Real Estate Taxes, Personal Property Taxes, & Personal Exemptions.



* All 2026 figures estimated based on inflating the actual 2024 figures

AMT Will Make A Comeback

Millions of taxpayers



Source: Urban-Brookings Tax Policy Center Microsimulation Model (versions 0304-3, 0308-4, 1006-1, 0613-1, 0319-2); Harvey and Tempalski (1997); private communication with Jerry Tempalski; and SOI Division of Internal Revenue Service.

Note: Data includes those with direct AMT liability on Form 6251, those with lost credits, and those with a reduced deduction for years 2001-2030. Tax units that are dependents of other taxpayers are excluded from this analysis.



Review Portfolio For Tax Efficiency

- Turnover Ratio
- Average After-Tax Return
- Pass-Through Gains
- Holding Period of Investments
- Cost of Rebalancing
- Tax Cost Ratio
- Tax Drag

“Most people don’t think about how taxes affect their long-term portfolio”

Diversified Retirement Income Strategy

Diversify Sources of Income to Manage Tax Liability in Retirement



- IRA
- SEP IRA
- SIMPLE IRA
- 401(k)
- 403(b)
- Annuities



- Mutual Funds
- Bonds
- Stocks
- Cash



- Muni Bonds¹
- Cash Value Life Insurance³
- Roth²
- HSA

¹ municipal bond interest may impact taxation of social security benefits and may impact liability under the alternative minimum tax.

² qualified distributions are income-tax free. Roth IRA distributions are qualified if the account has been open for five tax years, and the owner is age 59½, dies, is disabled, or is a first-time homebuyer (\$10,000 lifetime limit).

³ contract cash values can be accessed during the insured's lifetime via loans and withdrawals. Loans are generally income-tax free as long as the policy remains in force. Withdrawals are tax-free to the extent of basis. Policies which are modified endowment contracts (MECs) receive less favorable tax treatment.

Gift & Estate Tax Exemptions Dropping In Half

	Today - 2024	After Sunset - 2026
Estate Tax	Top Rate: 40% Exemption: \$13.61 million	Top Rate: 40% Exemption: \$7 million*
Gift Tax	Top Rate: 40% Exemption: \$13.61 million	Top Rate: 40% Exemption: \$7 million*

* Estimated by the CATO Institute

Summary

- Consider different financial strategies in a changing tax environment
- Investment decisions can have tax consequences that are not normally considered
- Understand how tax changes will affect you and your family


Disclosures

Conversions to a Roth IRA are generally fully taxable. Before converting to a Roth IRA, consider how your tax bracket will affect the overall benefit of the rollover. Conversion income may push you into a higher tax bracket. It is, however, possible to convert only part of their traditional IRA. This could enable you to remain in the same tax bracket as without the conversion.

It is generally advisable to pay the taxes on the conversion with funds other than those in a client's traditional IRA. If clients are under age 59½ when they do a conversion, any funds not deposited in the Roth IRA will be subject to a 10% additional tax. (unless an exception applies).

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Thank You. Questions?

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October 5, 2024

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