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# Trump Won? Action Items for 2016

The day before the election, a writer from a well-respected publication and I spent some time preparing his column for Wednesday morning, assuming, as everyone did, that Hilary would win and he'd have a jump on the competition. Obviously we had to start over upon hearing that Mr. Trump had indeed won the Presidency. **With the Republicans also controlling Congress it is expected that there will be tax reform early next year.**

The newly revised Trump presidency advice is 180 degrees from what we were thinking of with a Clinton presidency. With HRC, we were advising the purchase of tax free muni bonds believing that the tax rates on the investment income of the rich was to increase. Now we'd advise selling munis because the tax rates on interest income are coming down from the current 43.4% to as low as 16.5%. First, the republicans have the repeal of Obamacare's 3.8% tax on investment income as a first 100 days action item; that takes us down to 39.6%. Next, there is a good possibility that the top tax rate will drop to 33% as proposed in both Trump and Ryan's plans. And lastly, the republican plan also includes a proposal to tax interest at only half the rate of ordinary income (16.5% under their proposal). Tax fee bonds are much less attractive when the equivalent taxable bonds are taxed at a 16.5% tax rate.

Next, we were advising that investors utilize GRATs to their fullest extent. GRATs, an estate tax planning favorite, were in the crosshairs for limitations in both President Obama's budgets and the HRC platform. Well, considering that Trump and both houses of Congress would like to kill the "death" tax, estate planning seems superfluous. However, just how the estate tax is eliminated could make a big difference.

The republican plan eliminates the estate tax and leaves in place the step-up in basis that forgives all gains from tax at death. This might wind up being perceived as too generous to the wealthy; it is more likely that the step up will be phased out concurrent with the estate tax (as was the case in 2010).

The big question still to be answered is if there is no step up in basis, what methodology to tax unrealized gains takes its place. Historically, when we have had no estate tax, inheritors received their property with a carryover basis so that the unrealized gains would eventually get taxed. President elect Trump would instead make death a capital gains realization event. This of course would help make up for some if not all of the revenues lost from "death tax" repeal but could cause liquidity concerns for illiquid assets.

Both candidates proposed limiting deductions in some way. HRC prosed that every deduction be worth no more than a 28 cent tax savings. The republicans instead propose the elimination or limitation on deductions. The Ryan plan is to eliminate all deductions but those for home mortgage interest and charitable contributions. The deduction for State and Local taxes is the next largest source of itemized deductions. Interestingly, those deductions come mostly from Blue states (NY, NJ, Illinois and California take 43% of these deductions).   Trump's plan is instead to limit each taxpayer to $100,000 in deductions. For many in the Blue states that $100,000 cap could all be used up by the deductions that are now allowed leaving little room for charitable deductions. The devil is indeed in the details.

If one believes tax rates will decrease from 43.4% to 33% (or less) it might make sense to prepay deductible items and to defer income receipt until next year. One could pre pay their Real Estate taxes. Certainly do not do a Roth conversion before the end of the year.

Those charitably inclined might also be better off donating this year instead of taking a deduction next year at a 33% rate. Giving this year might wind up being an even better move if there turns out to be a deduction cap starting in 2017.

It should be noted that Trump's plan to tax gains at death has a second provision; appreciated property given to a Private Foundation will be taxed as if it was sold rather than donated (note that Private Foundation receive 25.5% of all appreciated property donations). Therefore, those planning on utilizing a Private Foundation might want to explore accelerating those plans too.

Change is definitely on the way and one needs to start planning for those changes now.