



Market Update:

Presidential Election - Tax Implications as of November 30, 2016

In September, President-Elect Donald Trump outlined recommended changes to the Federal tax code which, if enacted, will generally lower taxes paid for most filers. While it is far from certain whether these recommendations will become law, with Republicans holding majorities in both houses of Congress, we believe that tax payers should understand the basic tax proposal. It is important to note that once enacted, it is unclear as to which tax year they would become effective, although it will most likely be the 2017 tax year. This summary is simply intended to lay out the broad proposals. We recommend you consult with your tax advisor to review your personal tax circumstances.

Key Changes

Individuals

1. **Reduced Tax Brackets**

Lower individual tax rates and reductions in the number of tax brackets from seven to three; 12%, 25% and 33%. While the rates are lower, due to different income break points, the tax relief will vary depending on income level.

2. **Increase in the Standard Deduction**

A standard deduction increase for single filers from \$6,300 to \$15,000 and from \$12,600 to \$30,000 for joint filers. The proposal also would cap itemized deductions at \$100,000 for single and \$200,000 for joint filers. It is not clear if charitable donations are included in the cap.

3. **Elimination of Personal Exemptions and new Child Care Deductions**

Due to the standard deduction increase, personal exemptions would be eliminated. Families with children under 13 will be able to take an above-the-line tax deduction at the state's average cost of child care for up to four children with some income limitations.

4. **Elimination of Estate Tax**

While the death tax would be repealed, a capital gains tax would apply on assets left to heirs above a \$10 million threshold when they are sold. The proposed capital gains tax rate of 20% is below the current 40% estate tax rate. Also, the current "step-up" of cost basis would be eliminated. This proposal is very short on details and likely the one which will have the most debate.

Business

1. **Business Income Taxed Lowered**

The business tax rate would be lowered from 35% to 15%. This will encourage individuals to switch from employment to a consulting arrangement to take advantage of the lower rate.

2. Corporate Profit Repatriation

A one-time repatriation of corporate profits held offshore at a tax rate of 10%.

The tax proposal by President-Elect Donald Trump is very brief and short on detail. While there are a number of puts and takes, the proposal will generally result in lower taxes for businesses and individuals. Keep in mind, however, that the final tax plan may differ significantly from his proposal. This note is intended to highlight the key features and provide a general framework for analysis. We do not expect a draft version of an official tax plan until Spring 2017, at the earliest.



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