

# Get **Tax-Smart**

WEBINAR SERIES

## Finding the Silver Lining in Tax Reform

May 22, 2018



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- 1 **Introduction** | Michael Kim

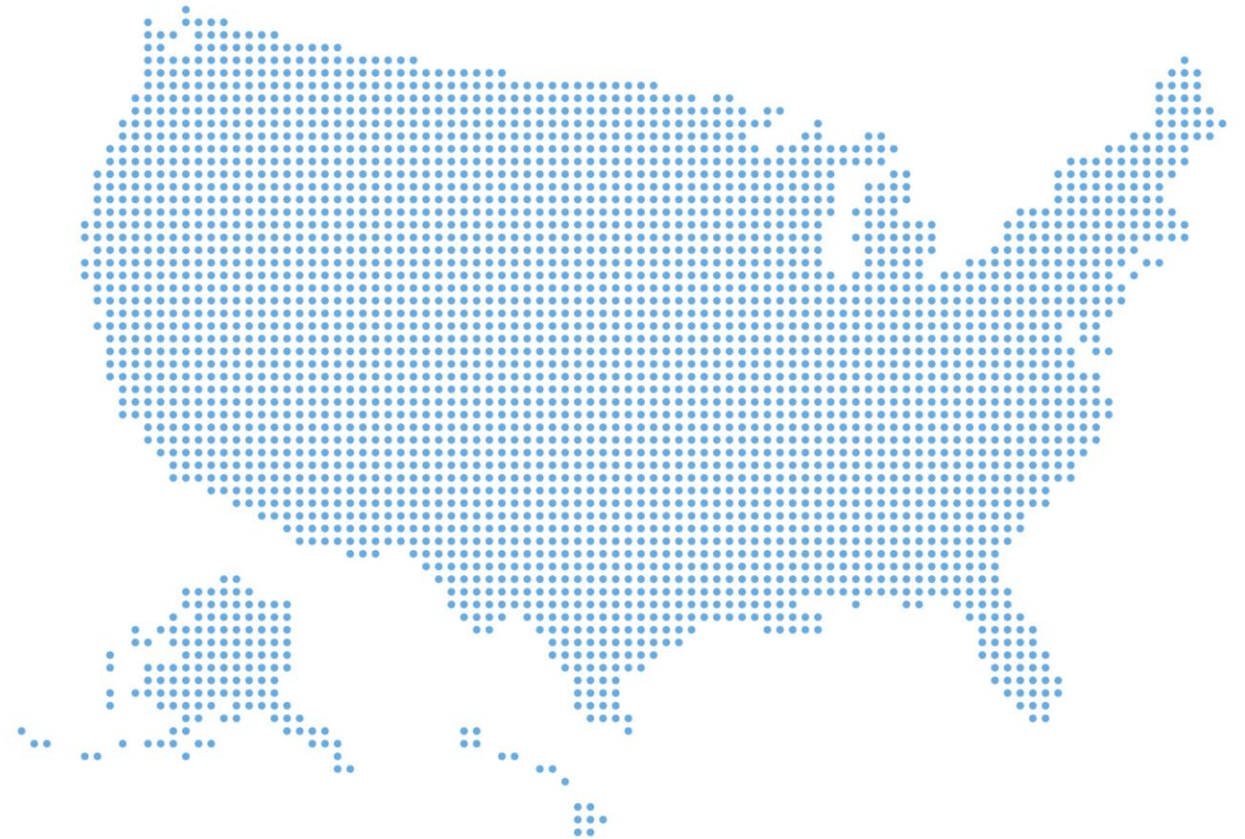
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- 2 **Tax Reform Highlights** | Julie Alcala

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- 3 **Planning Opportunities within the Tax Cuts & Jobs Act** | Paul DeLauro

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- 4 **Q&A**

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- **\$1.5 Trillion in repatriated assets**
- **10% earnings boost for S&P 500 companies**
- **0.25% increase in US GDP growth**



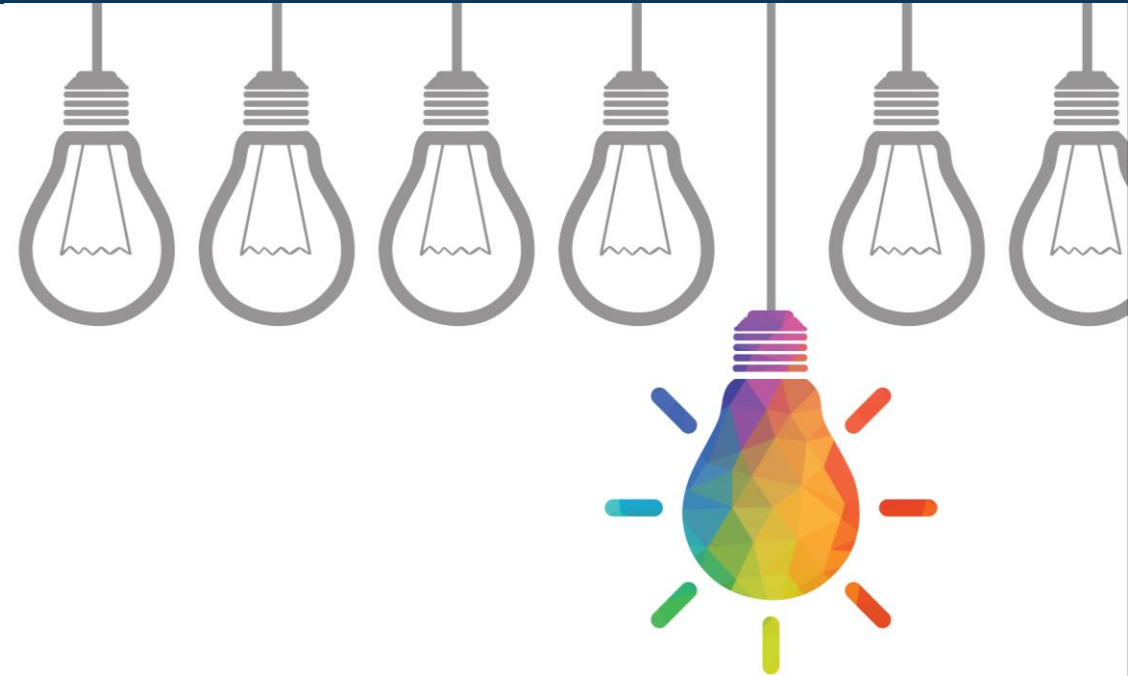
**63%** of HNW investors say they'll revisit their financial plan

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53% of this group that working with a financial planner with tax expertise could help meet their financial goals



- Business considerations to leverage new tax code
- Planning approaches for greater client retention
- Business development ideas



# Tax Reform Highlights

**Julie Alcala, CPA, CFP®**

Director, Wealth Planning  
William Blair



## OVERVIEW

- Many changes to corporate and individual tax provisions
- Most expire after 2025
- IRS guidance pending
- Unclear how states will conform to federal code changes

## WHAT YOU CAN DO

- Understand changes and potential impacts
- Access planning strategies
- Evaluate business entity options

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# Breakdown of Corporate Taxes

	2017	2018
<b>Tax Rate – C Corporations</b>	35%	21%
<b>Pass Through Entity Taxation</b>	Taxed at individual owner tax rate	Certain pass through entity owners entitled to a 20% deduction
<b>Interest Deduction</b>	100% deductible	Limited to 30% EBITDA
<b>Corporate AMT</b>	Subject to AMT	Corporate AMT eliminated
<b>Carried Interest</b>	One year holding period	Three year holding period

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## 2 Potential Tailwinds:

- Lower corporate tax rate
- 20% pass-through deduction
- Pass-through owners can claim the 20% deduction if taxable income is under \$315,000 for joint filers, or \$157,500 for single filers

**Closely evaluate tax effects on current business structure vs. costs & benefits of a potential change**



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## Still 7 brackets

For all income ranges, tax rates same or lower

2017			2018		
Rate	Single	Married	Rate	Single	Married
10%	<\$9,325	<\$18,650	10%	<\$9,525	<\$19,050
15%	<\$37,950	<\$75,900	12%	<\$38,700	<\$77,400
25%	<\$91,900	<\$153,100	22%	<\$82,500	<\$165,000
28%	<\$191,650	<\$233,350	24%	<\$157,500	<\$315,000
33%	<\$416,700	<\$416,700	32%	<\$200,000	<\$400,000
35%	<\$418,400	<\$470,700	35%	<\$500,000	<\$600,000
39.6%	>\$418,400	>\$470,700	37%	>\$500,000	>\$600,000

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	Standard Deduction		Personal Exemption	
	Married Filing Jointly	Single	Married Filing Jointly	Single
<b>2017</b>	\$12,700	\$6,350	\$4,050 (high-income phased-outs)	
<b>2018</b>	\$24,000	\$12,000	Repealed at all income levels	

**Doubled**

**Suspended**

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## 2017

- Mortgage interest capped at \$1M
- Itemized deductions subject to phaseout (Pease limitation)
- Misc. deductions subject to 2% threshold
- Cash gift to public charity deductible up to 50% of adjusted gross income (AGI)

## 2018

- ↓ Mortgage interest capped at \$750K
- Phaseouts eliminated (Pease limitation)
- Misc. deductions eliminated, including advisory fees
- ↑ Cash gift to public charity limit increased to 60% AGI
- ↓ State and local tax (SALT) limited to \$10,000

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Advisory fee deduction alone  
probably not impactful for most

**Myth**

**Reality**

Emphasize the value of working with you: **2 - 3% annually over time<sup>1</sup>**



## Financial Plan

Approximate Value-Add:  
0.50%<sup>2</sup>



## Oversee investments

Approximate Value-Add:  
0.25 – 0.53%<sup>3</sup>



## Reduce Taxes

Approximate Value-Add:  
0.80%<sup>4</sup>

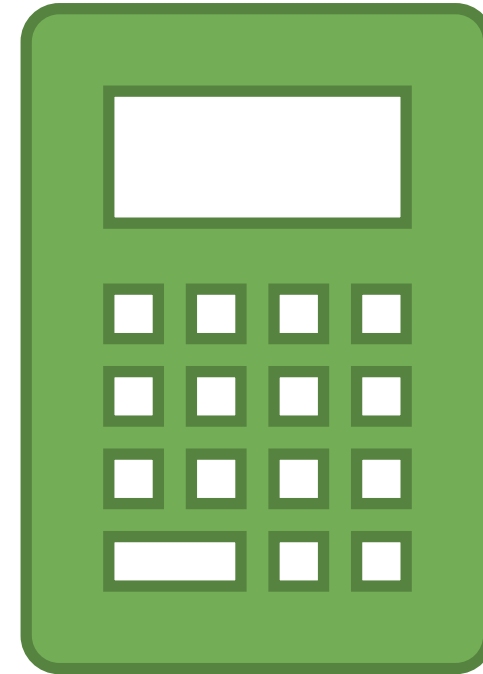


## Generate Income

Approximate Value-Add:  
0.23 – 1.50%<sup>5</sup>

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- Alternative tax system parallels the regular federal tax (with different rates and rules for deductions)
- Exists to ensure everyone pays a “minimum” level of tax despite using various exclusions, deductions, and credits to reduce their regular tax
- New tax law increases exemption amount
- Changes to “SALT” and elimination of miscellaneous deduction threshold likely to limit triggering of AMT



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## 2017

- Allowed by filing date

## 2018

- Eliminated
- ↑ Rollover period for plan loan offsets extended

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## 2017

- Qualified distributions only for post-secondary education

## 2018

- ↑ Up to \$10K/year per student can be used for K-12 schooling

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- Higher federal exemption rate
- Several states have lower thresholds
- Estate planning more critical than ever

	2017	2018
Exemption	\$5,000,000	\$11,180,000
Rate	40%	40%

Doubled

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A look into your client's tax return



Income planning

- Choice of entity
- Roth conversion



Domicile planning



Deduction planning

- Bunching deductions
- RMD to charity

# Planning Opportunities Within the Tax Cuts and Jobs Act

Presented by:  
Paul DeLauro, JD, CTFA, TEP  
Mgr., Wealth Planning

May 2018

A LEGACY OF SERVICE, SOLUTIONS AND TRUST<sup>SM</sup>

*Prepared by City National Bank, courtesy of City National Rochdale, LLC,  
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**Itemized Deductions – Single Filers, CA Resident Taxpayers**

**Scenario 1:** Single filer, gross income of \$255K, itemized deductions of \$24,550 (2017), no dependents, subject to AMT in 2017 but not 2018. Total Tax last year = \$94,579, total tax this year = \$93,279. Savings = **\$1,300**.

**Scenario 2:** Single filer, gross income \$535K, itemized deductions of \$51,300 Pease limited to \$43,000 in 2017, no dependents. Not subject to AMT last year/this year. Total tax last year = \$220,559, total tax this year = \$229,159. Loss = **\$8,600**.

**Scenario 3:** Single filer, gross income of \$1M, itemized deductions of \$108,628 Pease limited to \$86,045 in 2017, no dependents. The Taxpayer is not subject to AMT under both the old law and the new law. Total tax last year = \$455,486, total tax this year = \$469,036. Loss = **\$13,550**.

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**Itemized Deductions – MFJ, CA Resident Taxpayers**

**Scenario 4:** Married Filing Jointly, gross income \$150K, itemized deductions of \$20,800 (2017), 2 dependents. Not subject to AMT under both old law and new law. Tax last year \$44,661, tax this year \$40,461, savings **\$4,200**.

**Scenario 5:** MFJ, gross income \$255K, itemized deductions \$28,600 (2017), 2 dependents. Subject to AMT under old law but not new law. Tax last year \$82,629, tax this year \$76,129, savings **\$6,500**.

**Scenario 6:** MFJ, gross income \$535K, itemized deductions \$51,200 Pease limited to \$44,500 (2017), 2 dependents. Subject to AMT under old law but not new law. Tax last year \$215,409, tax this year \$199,609, savings = **\$15,800**.

**Scenario 7:** MFJ, gross income \$1M, itemized deductions \$108,200 Pease limited to \$87,614 (2017), 2 dependents. Not subject to AMT under old law or new law. Tax last year \$443,836, tax this year \$437,836, savings = **\$6,000**.

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## Transfer Taxes

### 2017

- Estate Tax Exemption: \$5,490,000
- Gift Tax Exemption: \$5,490,000
- Generation-Skipping Tax Exemption: \$5,490,000
- Annual Exclusion Amount for Gifting: \$14,000
- Top Transfer Tax Rate: 40%

### 2018

- Estate Tax Exemption: \$11,180,000
- Gift Tax Exemption: \$11,180,000
- Generation-Skipping Tax Exemption: \$11,180,000
- Annual Exclusion Amount for Gifting: \$15,000
- Top Transfer Tax Rate: 40%

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## Planning Pitfalls

- Clients amending estate plans to eliminate transfer tax provisions
- Clients seeking ways to terminate ILIT policies and revert CSV
- Clients attempting to incorporate non-business assets to artificially obtain pass-through entity status (e.g., Strangi)
- Clients seeking to invest in Qualified Opportunity Zone Funds for tax purposes only while not understanding underlying market risk
- Clients terminating HELOCs in belief they are no longer tax deductible

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## Planning Opportunities

- ***Gift Tax Planning:***
  - ✓ Increased lifetime Exemption amount is likely a short-lived phenomenon
  - ✓ If taxes are discussed, focus clients on gift-tax planning (not estate tax)
  - ✓ Gifting leads to inter vivos trust planning (multi-generational wealth management)
- ***Income Tax Planning*** (e.g., PPVLI, Captive Insurance)
- ***Domestic Asset Protection Trusts:*** Long-term AUM-gathering, low hurdle rate

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# Questions?



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