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Personal Wealth Management

THE ALTFEST ADVISORY LETTER

The Effects of the Proposed Trump Tax Plan on Your Finances

BY JIMMY BASSETT, CFA
ALTFEST FINANCIAL ADVISOR

The recent press conference given by Treasury Secretary, Steve Mnuchin, and Chief Economic Advisor, Gary Cohn, has brought tax reform back to the forefront of this administration's agenda. Congressional discussions are expected to be long and arduous, so it is impossible to know the particulars of any legislation. President Trump has provided some broad outlines and key areas of focus, but as was highlighted in the press conference, much work is still needed to determine the final details.

As you follow the proceedings in Washington, here are the major points of the plan, as it stands now, and some of the things to keep in mind regarding how

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IN THE NEWS

Karen C. Altfest, Ph.D., CFP®

was featured in *Forbes*' first-ever list of "America's Top Women Advisors" in which she ranked #17 out of 200.[1]

Lewis J. Altfest, Ph.D., CFP®, CFA, CPA, PFS

appeared in *Barron's* state-by-state listing of "America's Top 1,200 Financial Advisors" as #51.[2]

OUTLOOK: IMPLEMENTATION WILL DETERMINE ECONOMIC IMPACT OF NEW POLICIES

BY SUSH PODDAR
ALTFEST INVESTMENT STRATEGIST

The financial markets generally have welcomed November's Republican electoral sweep with an upbeat response. Stocks have rallied, and interest rates have been nudged up once again from historic lows, signaling that U.S. Federal Reserve officials believe the labor market and inflation are on the right track. The common denominator that helps explain this repricing of assets across markets in the first quarter of 2017 is an increase in expectations for economic growth.

Here's a look at several federal policy shifts that could affect your portfolio in the months ahead.

The U.S. economy, despite monetary support from the central bank, has grown at only a middling pace since the global financial crisis nearly a decade ago. Consumers have been paying down debt after the credit crisis, which has led to weaker demand and slower growth in consumption. Accommodation from the central banks made money cheap, but the loose monetary policy has not yet been sufficient to fuel increased demand in the economy.

Market participants, it appears, are looking forward to fiscal measures and structural reforms from the new administration and Congress that will accelerate demand in the economy. Investors believe that Republican control of all three branches of the federal government should, in principle, ease the gridlock that has plagued Washington lawmaking for the past few years. If true, this would allow the Trump Administration to push forward a pro-growth reform agenda.

While there has been an upturn in the economy — reflected in features such as improving labor market conditions, consumer confidence and corporate earnings — the U.S. election has fueled further conviction about buoyant organic growth. The financial markets already seem to have priced in investor optimism about the new administration's policy indications. However, uncertainty about individual policies, as well as the risks tied to actual execution, is still quite high. Proposals put forward by President Trump during the campaign were broad and have yet to be fleshed out in detail.

Some of the policy initiatives that have the potential to revive the markets are:

Tax Policy

The new administration's agenda calls for tax cuts for both corporations and consumers. Corporate tax reductions would increase return on capital and give corporations incentives to raise capital expenditures. The proposals also open the possibility of a one-time benefit from repatriating U.S. corporate profits from abroad, which may unlock an immense amount of unused capital and relieve corporate debt burdens. Certain large companies, such as Apple, Microsoft, GE, IBM and Pfizer — and their stock prices — may be the primary beneficiaries. Tax cuts for households should stimulate demand, but how they would be financed without increasing the deficit is still unclear. The proposals being discussed call for removal of certain deductions, for example, the interest expense for companies, while

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The Effects of the Proposed Trump Tax Plan on Your Finances

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it would affect you and the country as a whole.

1. Consolidating Brackets and Repeal of the Obamacare Tax

The Trump tax plan reduces the current seven brackets down to three, which would be 10%, 25%, and 35%. While the one-page document outlining the new plan provided new rates there was no additional information on the income ranges for those rates. Earlier versions of the Trump tax plan more clearly displayed how tax liabilities would be reduced for individual American taxpayers. This newest document leaves much more to be determined and the final fate of individuals' tax bills would come down to how the current brackets are merged together.

More directly, individuals who are currently affected by the Obamacare tax will see their overall tax liability come down. The goal is to completely repeal the 3.8% tax on investment income for those above a certain income threshold.

If the new compressed bracket system does decrease effective tax rates it would not only be helpful in increasing individuals' after-tax income, but it also would open the door for some additional tax planning options. Utilizing a Roth IRA or Roth conversion could, potentially, become attractive for many taxpayers in middle to high-income brackets. Through either a current year contribution or transferring a large sum through a Roth conversion, individuals could free investment assets from any future taxation at rates that have previously only been available to those in the lowest brackets. This could be a unique opportunity if these tax reforms end up being rolled back in a future administration.

2. Eliminating Deductions and the Alternative Minimum Tax

Limiting deductions has been a consistent line in the several iterations of President Trump's evolving tax plan. However, details in previous versions have been sparse. Now we know the current plan targets the elimination of all itemized deductions, except for charitable contributions and the deduction of mortgage interest. To coincide with this elimination of itemized deductions, the plan proposes to double the standard deduction, which is currently $6,350 for single filers and $12,700 for those filing jointly.

The tax plan also calls for the elimination of the Alternative Minimum Tax (AMT), which currently prevents some taxpayers from claiming the full amount of their itemized deductions. The underlying details of how the AMT is calculated can be complicated, but the AMT affects over 50% of taxpayers with more than $200,000 in income and is more likely to affect people located in high-tax states and those with multiple children listed as dependents. This repeal seems to suggest many mid to high-income earners would have reduced tax liabilities due to the fact that the AMT previously limited deductions of high state income and property tax bills, tax and investment advisory fees, and interest on loans for second homes. However, with the plan also promoting strong limits on itemized deductions, it is unclear what the true pros and cons of eliminating the AMT would bring to taxpayers.

3. Repealing the Estate Tax

The modern Federal Estate Tax, also known as the "Death Tax", has been a fixture (aside from a couple of temporary phase-out periods) since 1916. The repeal of the estate tax would be a major change even though relatively few Americans are subject to it. The tax is currently applied to estates of $5.49 million or higher for individuals, and double that amount for married couples. Its elimination would be an enormous boon for the wealthiest American families, who currently spend a considerable amount of time and energy to maximize the wealth that can be passed on to future generations. This would affect all those who currently play roles in helping to limit the impact of estate taxes, such as estate attorneys, insurance companies, and charitable organizations.

4. New Corporate Tax Rates

There has been much talk in the news regarding changes to corporate taxes and its potential to benefit American businesses. One question that has been raised is: How would this affect small business owners who commonly see their income pass through to their individual tax returns? While pass-through structures eliminate double taxation for business owners, payouts can be subject to the highest tax brackets. The most recent tax plan suggests that there would be some structure in the tax code that would allow pass-through business income to also be limited to the new 15% corporate tax rate, but we do not have the details on exactly how this would work.

If this item is passed as suggested, individuals and families who derive a majority of their earnings from business income could see a dramatic increase in their income, net of taxes. We will have to wait and see exactly how business owners react to any changes. Potentially this could allow for business owners to take advantage of retirement plans such as Roth IRAs and Roth Solo 401(k)s, which are much more appealing at lower tax rates.

It is important to emphasize that these are outlines from the administration's current tax plan and that these items are subject to change. And due to the complexity of the current tax system, the effects of simplifying the process would not be straightforward. While we do not know yet what the final results will be or, also important, when the changes would apply, revisiting your personal tax situation later this year when, hopefully, there is more clarity could be smart. It is possible that the new tax law could cause a big change in the amount of taxes you owe. There may be a unique opportunity to benefit by deciding when you receive income and take deductions, especially if new tax law is not phased in until 2018 and you can plan ahead.

Jimmy Bassett, CFA, has worked in financial planning and wealth management since 2008. An advisor at Altfest, he meets with clients to construct and implement their investment strategies to ensure they meet their financial goals. He also guides young professional clients of the firm. Jimmy received his B.A. in Business Economics from Loyola University Maryland and has earned the Chartered Financial Analyst designation.

1. The Forbes ranking of America's Top Women Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative and quantitative data, rating thousands of wealth advisors with a minimum of seven years of experience and weighing factors like revenue trends, assets under management, compliance records, industry experience and best practices learned through telephone and in-person interviews. Portfolio performance is not a criteria due to varying client objectives and lack of audited data. Neither Forbes or SHOOK receive a fee in exchange for rankings. Additional details regarding the criteria and process utilized in formulating these rankings can be found by at https://www.forbes.com/sites/rjshook/2017/02/28/the-forbes-ranking-of-americas-top-women-wealth-advisors-methodology/#10e07712285d.

2. Barron's state-by-state listing of "America's Top 1,200 Financial Advisors" lists the top advisors in each state, with the number of ranking spots determined by each state's population and wealth. The rankings are based on assets under management, revenues generated by advisors for their firms, and the quality of the advisors' practices. Investment performance is not an explicit criterion because performance is often a function of each client's appetite for risk. In evaluating advisors, we examine regulatory records, internal company documents, and 100-plus points of data provided by the advisors themselves. Additional details regarding the criteria and process utilized in formulating these rankings can be found by at http://www.barrons.com/articles/barrons-top-1-200-financial-advisors-1488608821.

Outlook: Implementation Will Determine Economic Impact of New Policies

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reducing the overall tax rate.

Deregulation

A core Republican policy aims to reduce the regulatory burden on businesses. Less regulation can ease uncertainty and improve business investments. Sectors that are more highly regulated, such as Financials and Energy, are expected to benefit more than others.

Trade Policy

Trump made trade a core issue during his campaign. He has maintained the "America First" rhetoric since the election. Renegotiation of trade deals, increased tariffs for foreign goods and a border tax are under consideration. For instance, under the border tax adjustment idea, goods imported to the United States by corporations no longer can be expensed for tax benefits. If implemented, such policies could hamper global economic growth while building inflationary pressures at home.

Fiscal Stimulus/Infrastructure Spending

Both parties stressed the need for increased infrastructure spending during the presidential campaign. What remains vague is how this spending will be financed. The Republican Congress has made deficit reduction a key policy objective in the past. Private investments, through tax incentives, are expected to deliver a portion of the funding for infrastructure. However, the final scale and pace of implementation, which are more likely to determine economic growth, remain unclear.

Energy Policy

President Trump is in favor of domestic exploration for fossil fuels. Regulatory oversight will be reduced in this area, and new exploration will be encouraged. However, given the current energy pricing environment, corporations may not be very enthusiastic about spending capital on new investments. This should amplify the global demand-and-supply imbalances in the Energy sector, stoking more uncertainty while presenting tactical investment opportunities.

Defense Spending

The new president has espoused the view that we need to modernize and upgrade our military capabilities. If he follows through, defense spending could become an even bigger portion of the federal budget.

Fiscal Deficit

In sum, the policies being discussed for rectifying the deficit are not budget-neutral. We expect this to become a more important part of the discussion as proposals about the deficit advance through Congress. While economic growth could boost federal tax revenue, it's not clear how much of the planned increases in spending it can finance. In addition to economic growth and inflation, increased federal spending could add upward pressure on interest rates.

Overall, markets seem to have absorbed a higher economic-growth trajectory since the election. However, in our view, implementation is likely to be as critical as the policies themselves in determining the success of our investments. The United States can have higher growth with tax and regulatory reforms, or we could end up with higher-than-expected inflation as a byproduct of new fiscal and trade policies.

The changes we have made at Altfest throughout the past year position our portfolios well. The purchase of inflation-protected bonds and replacement of high-interest-rate-sensitive bonds with non-agency mortgage-backed bonds last year helped our portfolios weather the rise in rates that occurred shortly after the election. Regional banks' stock purchased immediately after Brexit in the United Kingdom performed very well. We continue to hold these investments, as they will protect our portfolios in a rising-rates environment.

We invested in Health Care in December as uncertainty around policy made the sector's valuation very attractive. We continue to view this investment favorably. Most recently, we have added a hedged equity fund to our portfolio to protect against possible downturns in the market. We anticipate volatile markets as actual policies in the areas outlined above are fleshed out.

Regardless of the outcome, we feel that there will be an ongoing need to be nimble in order to use any market correction as a potential opportunity. At the same time, we will continue to seek opportunities if asset prices are on the rise in the weeks and months to come.

Sush Poddar is an Investment Strategist at Altfest. Prior to joining Altfest, she was an Executive Director at a large investment bank, where she spent a decade as a Trading Desk Strategist. She holds an MBA in International Finance from Thunderbird School of Global Management at Arizona State University and a Bachelor's degree in Computer Science & Engineering from Osmania University, India.

UPCOMING EVENTS

BE ON THE LOOKOUT FOR THESE EVENTS

Webinar:
Financial and Practical Advice for Widows

Karen C. Altfest, Ph.D, CFP®
with Martin Shenkman, Esq.
May 11, 2017
for more information contact Jessica Smith:
212-406-0850, jsmith@altfest.com

Altfest Annual Event

June 7, 2017
The Princeton Club
RSVP to Marina Marsillo:
212-406-0850, mmarsillo@altfest.com

Invite an Altfest Professional to speak to your organization:

Altfest professionals are often asked to speak on wealth management topics. If you know of a company, an organization, or a group of friends who might benefit from our educational sessions, please contact Reza Rezvi at (212) 406-0850 or rrezvi@altfest.com

Recent topics include:

- 6 Tips for Achieving a Secure Retirement
- Portfolio Strategies for 2017
- Loss of a Loved One
- Millennials: Jumpstart Your Financial Future

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BARRON'S TOP 100 INDEPENDENT FINANCIAL ADVISORS IN THE NATION 2013, 2014 2015, 2016

THE ALTFEST ADVISORY LETTER

In This Issue:

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ALTFEST PERSONAL WEALTH MANAGEMENT: IN THE NEWS

1. Four weeks after the Presidential election, Lewis Altfest spoke with *The New York Times* for the article, "How to Play the Trump Stock Market Rally."

2. Karen Altfest was quoted in *The Wall Street Journal* article, "Trump's Surprise Victory Sent Global Markets on a 12 Hour Thrill Ride."

3. Paul Palazzo recently was interviewed for *The Wall Street Journal* piece, "Afraid of Losing Obamacare? Some Preventive Care From Financial Pros."

4. Mike Prendergast's expertise in matters relating to Social Security benefits was highlighted in the article, "Social Security Savviness Still Pays Off," which was published by several financial outlets.

5. Andrew Altfest provided insight on municipal bonds in a recent CNBC.com article: "4 Ways to Avoid a 50 Percent Hit to Your Retirement Savings."

6. Karen Altfest shared her professional experience for *The Wall Street Journal* article, "Personal-Finance Lessons From the Ultrawealthy."

7. Lewis Altfest took part in a panel discussion hosted by *TheStreet*, where the topic of trade under the new Presidential administration was discussed. Lew's comments were featured in the video posting, "Should We Expect a Trade War Under Trump?"

8. Paul Palazzo was interviewed for *The Wall Street Journal* podcast, *Watching Your Wealth with Veronica Dagher*: "Paul Palazzo Answers Your Personal Finance Questions."

9. Karen Altfest is featured in the *CNBC.com* article, "Playing Politics with the Millionaire Portfolios is a Dangerous Mix," which includes a look at a recently released CNBC Millionaire Survey regarding the investment outlook of wealthy Americans.

10. *Money* magazine sought Lewis Altfest's insight for the article "4 Big Investing Trends You Can Bet On for the Next Several Years."

11. Karen Altfest's feature on coping with widowhood was published in the journal of the American Association of Individual Investors, "12 Guidelines for Widows, and Suggestions for Husbands."

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