# The Center - Special Election Edition: Taxation and Politics

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Whether you are voting Democrat, Republican or this year perhaps not at all, there is a good chance that this November's election results will have a significant impact on our country's federal tax system. With our voting population's general disdain for our presidential choices and the strong possibility of a divided government splitting control of the White House, Senate and House between the two political parties, it is assumed that there may not be enough political capital to get much of anything done, other than perhaps some good old fashioned tax reform. This is the one area there is some commonality between the Democrats and Republicans, if not in the specifics at least in the need for change. The shape of that change will depend upon who our next President will be and whether or not their party controls the House, Senate or both. While the two parties' tax platforms diverge on many issues, believe it or not there are some areas of agreement!

The following outlines some of the ideas we have been hearing from the candidates. Please keep in mind that sometimes a candidate's tax platform is designed to help them get elected and may never make it into proposed legislation, let alone into the actual tax code. Also consider that sometimes policies "shift" during the course of an election campaign, with ideas starting out as one thing but then morphing into something entirely different as Election Day nears.

**Business Taxes**

There seems to be an overall agreement that business tax reform needs to be enacted. Donald Trump has proposed a comprehensive redo of the entire corporate system. Hillary Clinton has focused more on hot button issues. Both agree that some type of international reform needs to be put in place given our country's eroding corporate tax base and the shifting of profits overseas to low cost tax jurisdictions. International tax reform is an extraordinarily complex topic that will not be solved in a few political sound bites (nor the bullet points below), but is perhaps the most likely area to reform. Here are some highlights:

Trump

- Create a top business tax rate of 15%. This reduced rate may possibly extend to the earnings of certain pass through entities such as partnerships
- Eliminate or limit many deductions and credits
- Repeal corporate alternative minimum tax
- Place some type of cap on the deductibility of interest expense
- Worldwide profits of multinationals will be subject to US income tax. End of the tax deferral for overseas income
- Create a 10% repatriation tax for earnings that were previously accumulated overseas. Tax will be payable over a 10 year period

Clinton
- Place some type of cap on the deductibility of interest expense
- Require a mark to market tax on many types of derivatives
- Eliminate oil and gas tax preferences
- Curtail deductions for executive performance compensation
- Create a tax for high frequency trading of securities
- Make it more difficult for companies to invert (change from a US to foreign entity)
- Impose an exit tax on certain foreign profits

**Estate Taxes**
The candidates fall along historical party lines with their proposals here:

Clinton
- Increase the estate tax rates from 45% to 65%
- Lower the estate tax exclusion to $3,500,000

Trump
- Repeal the estate tax

**Individual Taxes**
While there are a few common proposals that the two candidates share such as increasing the tax rate on carried interest and limiting itemized deductions the specific proposals diverge rather quickly after that. A summary of some of the major points:

Trump
- Lower top rate to 33%. Have only three tax brackets
- Eliminate the tax on net investment income and additional Medicare tax
- Repeal the alternative minimum tax
- Increase the tax rate on carried interest from 20% to 33%
- Significantly increase the standard deduction
- Place a cap on itemized deductions

Clinton
- Increase the top tax rate from 39.6% to 43.6% for filers with over $5,000,000 of income
- Create a 30% minimum tax for taxpayers making over $1,000,000 (affectionately known as the Buffet Rule)
- Increase the tax on carried interest from 20% to 43.6%
- Cap itemized deductions at 28%
- Expand the earned income tax credit (EITC)
- Prohibit nonpublic securities to be held in IRAs
- Extend the asset holding period to 6 years to receive the most favorable long term capital gains tax rate

While any of the above proposals can have a positive or negative impact on the taxes you pay, they can also have an equally important indirect impact on various markets and the assets you hold. The election results will affect the value of assets especially your residential real estate, securities and municipal bonds. Also of note on a macro level, Clinton's plan will raise taxes an estimated 1 trillion dollars over the next 10 years while Trump's plan will cut taxes (and hence add to the deficit) many trillions of dollars over the same period.

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