Winter 2017 *Highlighting important wealth management issues*

Seven Key Components Of Trump’s Tax Reform Plan

On November 8, 2016, Donald Trump was elected the 45th president of the United States, culminating a two-year campaign. It is expected that it will take considerably less time for the former business mogul to push tax proposals through a Republican-led Congress. Although these provisions likely will be tweaked during congressional debate and negotiations, here are seven key items on Trump’s tax agenda:

1. Individual tax rates. One cornerstone of Trump’s tax plan is a restructuring of individual income tax brackets. The seven-bracket system now features a bottom tax rate of 10% and a high of 39.6%. Trump would replace the system with one having just three tax brackets: 12%, 25%, and 33%. Most taxpayers could pay less with this structure, but the largest benefits will be for those in the higher tax brackets.

2. Corporate tax rates. Another consistent theme in Trump’s campaign was a pledge to reduce corporate income tax rates. Corporations currently pay tax at rates as low as 15% and as high as 35% (with a 38% bubble on some income). Under Trump’s plan, all businesses would be taxed at a 15% rate, providing a tax cut to the majority of corporations. At the same time, Trump hopes to eliminate “double taxation” for C corporations, while preserving benefits such as liability protection.

3. Itemized deductions. Although Trump is offering tax relief to individuals with one hand, he would take it away with the other by eliminating some itemized deductions or limiting the total amount of itemized deductions. However, exceptions could be carved out for certain deductions, such as those for charitable donations and mortgage interest. The loss of the state income tax deduction could have an adverse effect on upper-income residents of states with high tax rates, such as California and New York.

4. Business write-offs. Under Section 179 of the tax code, a business currently may deduct up to $500,000 of the cost of assets placed in service during the year, subject to a phase-out threshold of $2 million. Plus, a business may be entitled to a bonus depreciation of 50% on qualified property. As part of his plan to boost business growth, Trump would double the Section 179 deduction to $1 million and provide an immediate deduction for business investments. This could be accompanied by a repeal or modification of the depreciation rules.

5. Estate taxes. Trump has proposed to repeal the federal estate tax. In addition, he has called for eliminating the tax rule allowing heirs

(Continued on page 4)

COMPASS Corner

Louis E. Conrad II, CFA®

Despite weakness early in the year, U.S. stocks rebounded, with the Russell 3000 Index generating a total return of 12.74% for 2016. The index gained 4.21% in the fourth quarter alone as U.S. stocks responded positively to the election of Donald Trump as President.

Bonds, on the other hand, which had performed well during the first half of 2016 when interest rates fell, responded poorly to the prospect of a Trump presidency, selling off during the second half of the year as interest rates soared. The Bloomberg Barclays U.S. Aggregate Bond Index gained 2.65% for 2016.

Separately, I am happy to announce an addition to COMPASS’ staff! Sarah Wieland has joined the firm as a Wealth Manager. She previously was employed by a local wealth management firm and an investment firm specializing in post-venture distribution management. Sarah has also held positions with Middlesex School and Emerson Hospital. She completed her Certified Financial Planner™ (CFP®) course work at Boston University’s Financial Planning Program and received her MBA with honors from Northeastern University. She is a cum laude graduate of St. Lawrence University.

And finally, as is announced in the February issue of ***Boston*** magazine, I received the **Five Star Wealth Manager** SM award for 2017, an award I have been fortunate to receive several times over the years based on ten objective eligibility and evaluation criteria, including a favorable regulatory review.

Where Will You Live After You Retire?

Planning your retirement involves far more than determining how much income you'll need. One of the most basic and important decisions is where you want to live during your retirement years.

Choosing a location is something you can start working on early, as much as five to 10 years before you leave work. Don't wait until retirement is just around the corner, because the process of comparing and contrasting different regions can be time-consuming and eye-opening.

The first step is to decide whether you want to remain where you are or move to a new place. It's a very personal starting point, and often it will take into account proximity to family members and attachment to your community.

For those who decide to move on, here are some steps to make sure you end up in a happy place:

- **Discuss your desires.** Do you dream about lying on a beach with the latest bestseller, or reeling in giant marlin from deep water? Do you envision attending symphonies and plays, or riding horses and hiking up mountains? Will you play golf or visit museums and the library? Do you want lots of sunshine or four seasons? Small town or big city? Lots of restaurants or lots of bait shops? Start by writing down a clear picture of your life in retirement.
- **Do your homework.** Start matching real places with your dream retirement activities and environment. Look into weather, demographics, health care costs and health care availability for hospitals and medical specialties, crime statistics, and other factors using popular "Best Places To Retire" guides. Generate a list of three or four places that look like good matches.

- **Dip your toe in.** Schedule a trip to each area, and make it a long vacation if possible, up to several weeks. Try to visit each area at different times (e.g., when weather isn't ideal) and experience as many things as you can while there. Are the people friendly? Do any unexpected difficulties pop up? Does it match your vision?
- **Consider longer visits.** If your short-term visits leave you uncertain, consider renting your current home out while you spend even more time in your potential locations. Take several months to get a real feel for the area and make your decision. After all, you hope to live there for a long time to come!

Once you decide on a location, it's time to look at some financial factors, starting with the sale of your current home. Ask several realtors for an estimate, and compare what you're likely to clear from the sale with what you'll need in your new area. We can help you do these calculations, and we'll add any expected surplus into your income calculations, and take into account tax and other implications.

Relocating can be one of the most stressful aspects of retirement. Work with a financial advisor who understands all the state and estate tax implications and how moving affects your financial outlook and quality of life. ●

Trump's Tax Reform Plan

(Continued from page 1)

to adjust the taxable basis of inherited property to its value at the death of the person making the bequest. This so-called step-up in basis may reduce capital gains taxes on inherited assets. The proposed changes could cause income tax complications for some taxpayers.

6. Repatriation tax. Tax revenue has shrunk in recent years due to so-called "tax inversions," through which multinational companies relocate their headquarters in a foreign country to avoid paying higher U.S. taxes. Trump has advocated a one-time tax repatriation holiday rate for corporations that would let them pay a tax rate of 10% on income brought back to the U.S.

7. Child care. The current tax law attempts to help beleaguered parents through a child tax credit (CTC) and a dependent-care credit for certain child-care costs. Low-income families may benefit from the earned income tax credit (EITC). Trump would overhaul the rules and institute a new deduction for child-care expenses, increase the EITC, and create tax-favored dependent care savings accounts, among other changes.

Many more changes could be in the works. For instance, Trump has advocated repealing the alternative minimum tax (AMT), the benefits for "stretch IRAs" that let inheritors spread out distributions over their life expectancies, and the 3.8% surtax on "net investment income" authorized by Obamacare. ●

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