Ask the experts: How will Trump's tax proposal affect retirement savers?

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By Alessandra Malito

There's a lot Americans still don't know about President Trump's tax proposal, but one thing is certain: regardless the outcome, a change will affect current retirement savers and retirees.

The plan, released late last month, mentions a 20% corporate tax rate (down from 35%) as well as a three-tiered tax bracket system (12%, 25% and 35%) with an option of a fourth higher rate for highest-income households (this would be a reduction of tax brackets from seven down to three or four). There was also a proposal for a substantially increased standard deduction, and to retire personal exemptions, except for mortgage interest and the charitable deduction.

Where do retirement savers and retirees stand? Though not certain, some in the financial services industry are worried the tax proposal will mean the demise of 401(k) plans, the employer-sponsored retirement savings accounts where employees can stash pre-tax dollars. Speculation has been swirling that the government may "Rothify" these accounts, which means that the money would be taxed before being deposited into the account. Others aren't exactly worried, saying retirement savers with money in the stock market will benefit because tax cuts means more money for corporations (and therefore, solid returns for you, the shareholder).

Here's what else retirement savers and retirees alike should look for:

Ian Weinberg, Family Wealth & Pension Management, Woodbury, N.Y.
Pre-retirees will need to look carefully at bracket strategizing, such as: How much taxable income they should withdraw or not from their retirement accounts vs. their non-qualified accounts. They should also evaluate whether it pays to contribute to retirement accounts in their final stretch of working years. Perhaps it will be better to contribute to a Roth IRA if their retirement accounts are large now.

It also pays to look at what level of municipal bond income and qualified dividend and capital gain income you have now and anticipate in retirement. Everyone stands to benefit from the elimination of the payroll surcharge and especially the AMT.

Reviewing these likely changes for next year with your CPA or tax and investment professionals makes sense now. There are possible repositioning strategies to explore that may maximize people's net after tax income in retirement. Also selling a business or taking large capital gains could be deferred into next year if there are controls in place to protect price of sale, which will likely avoid AMT if the tax reform plan is passed.

David Haraway, Substantial Financial, Colorado Springs, Colo.
One of the challenges faced by retirees is that without the mortgage interest deduction (because their home is paid off), they become non-itemizers. This means that their only deduction is the standard $12,300 deduction for joint filers. Along with two personal exemptions, the first $20,400 of income they receive is not taxed. Under the current plan the first $24,000 is not taxed, plus charitable gifts are deductible. Older people tend to be more generous than younger ones.

Gail Cohen, Fiduciary Trust, New York, N.Y.
One part of the tax bill that is quite unclear and could impact retirees is for estate planning. If you are under current law when you die, you pay an estate tax but you also get a step up in your income cost. So for example, if you bought a share of stock for a dollar and then you die, and it is worth $100, you will pay estate tax on $100. But when your inheritors get it, they take the $100 basis, not the $1. That is known colloquially as a step up in basis. There has been no mention in this [tax proposal] brief what the plan is – whether or not eliminating the estate tax will also eliminate the step up in basis. If you have no step up, then inheritors won't have to pay estate taxes but will have to pay capital gains tax on what they inherit. It impacts the behavior retirees have toward their investment portfolios because there is no longer a benefit to holding on to appreciated assets until death. It will make a big difference.

Wade Brittingham, Voya Financial Advisors, Louisville, Ky.
Doubling the standard deduction and repealing the individual AMT look very attractive. There are many unknowns and details left out of the proposal at the moment. The devil is in the details - and we will need more information to fully understand the entire picture.

Alexander Rupert, Laurel Tree Advisors, Cleveland, Ohio
Given that there are no specifics released yet, this is hard to predict. Retirees could face some trouble if the most itemized deductions are eliminated as proposed: "eliminates most itemized deductions, but retains tax incentives or home mortgage interest and charitable contributions." Retirees can find an advantage in the medical and dental exemption found in itemized deductions. Medicare doesn't cover dental and vision, which is common in old age and a lot of the time these expenses are out of pocket. A portion of these expenses can be itemized in the medical and dental exemption when itemizing deductions. I would assume the increase in the standard deduction would be an effort to offset the elimination of itemized deductions but without specifics, it is hard to determine.

Jon Ulin, Ulin & Co. Wealth Management, Boca Raton, Fla.
Consider that whether you are working or retired, it is more important to watch and track your blended effective federal income tax rate for the year - more so than what marginal (actual) tax bracket you "land on" with the last dollar of your reportable income for the year. For example, the amount of federal income taxes owed for an individual earning $100K for the calendar year may only be about $17K, though his or her gross taxable income may place them in the 28% marginal tax bracket. Do not rush to make any big changes before year end regarding income or expenses reported for this calendar year, or to make a Roth conversion from an IRA, as there is no way yet in knowing if you may be better or worse off in 2018 and beyond regarding your tax implications.

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