Halliday Private Trust
Integrated Trust Solutions for Clients

Trust Connection

A Monthly Report of Trust News and Information March 2017

Welcome to *Trust Connection*, our monthly newsletter highlighting Trust news and information. Each month we will feature timely articles of interest.

About Us

At Halliday Private Trust, it is our mission to assist our clients in the process of providing solutions, specifically through a wide range of financial advice.

Since 1982, we have utilized a full spectrum of financial services to help our clients navigate every major hurdle in their financial lives. Because we are an independent financial services firm, we utilize an open architecture approach to locating the most suitable investment options for our clients.

Our role is to help clients make smart decisions about their money. We understand that each client has unique needs and requires personalized solutions based on their goals, objectives and concerns.

What's Up, D.C.? Financial Changes on the Horizon

It is potentially a time of significant change in Washington, D.C., because a new president is in office. President Donald Trump has a lot on his plate and quite a few issues to address that are more pressing than tax law and regulations. Because tax law changes have yet to be defined, the focus below will be his intentions.

The president has said he intends to get rid of 75 percent of regulations, and there are several that affect financial planning. One is the Dodd–Frank Wall Street Reform and Consumer Protection Act, which was put in place in 2010 in response to the financial crisis. It does not yet appear to have its intended effect in areas such as lending. A study out of the University of Maryland found that because of Dodd-Frank, lenders reduced credit to middle-class households by 15 percent, and increased credit to wealthy households by 21 percent, which means the money is not getting to the people who need it, and it has forced many institutions to hire compliance officers rather than lenders. According to Forbes, the five biggest banks control 44 percent of all U.S. banking assets – more than before Dodd-Frank was enacted. At the same time, more than 1,700 small and community banks – nearly one-quarter of the industry – have been forced to merge or shut down. Altering these regulations could ease the flow of money into the hands of consumers and small businesses to stimulate the economy.

The Fiduciary Rule is a second set of new rules released in the past year in response to the financial crisis. This set of regulations imposes a fiduciary responsibility on anyone dealing with and advising on retirement assets. Most notably, the change affects IRAs and IRA rollovers, where approximately $7.4 trillion of Americans' money resides, usually after being rolled over from a qualified retirement plan. It changes the role of the financial advisor from simply providing products that are suitable or appropriate for clients and their situations to one where instead the advisor may recommend only what is in the best interest of the client. While it sounds simple enough, this has caused major shifts in terms of what products firms will offer in the future and the manner in which they will offer them. It is generally believed that even though the Trump administration has discussed delaying or canceling the implementation of the fiduciary rule, it is too late to put the genie back in the bottle and major firms will approach the world of IRAs differently in the future.

The third and final regulatory issue relates to IRC 2704 and the IRS's proposed regulations essentially re-crafting its interpretation of the law. This change would disallow a very common and highly taxpayer-beneficial technique used to discount fractional interest in property, thus greatly reducing values for gift and estate tax purposes. The proposed regulations drew

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For information and assistance, please feel free to contact one of our Trust Advisors:

- Michael F. Fleming, Esq.
- Sean S. Mohammadi

thousands of comments from practitioners, which will probably delay implementation, or possibly the Trump administration could cause the regulations not to take force. This could have the biggest direct impact on the estate planning community.

Repeal of the Estate Tax

One of the president's campaign platform issues was tax reform, including the desire to repeal the estate tax. This would clearly be a major shift in the tax rules that apply to estate planning, but not to the average American. Current estate tax laws allow more than $5 million to pass tax-free for individuals, meaning couples can transfer more than $10 million tax-free. This tax affects less than one percent of Americans and calling it the "death tax" seems to make more people support its repeal. The repeal of the estate tax has been proposed since 2001 when it was part of President George W. Bush's initiatives. Congress voted many times, yet never voted for repeal.

While not part of the president's campaign description of the repeal, some have speculated that the estate tax would be replaced by a capital gains realization similar to what was proposed in the General Explanations of the Administration's Fiscal Year 2017 Revenue Proposals. This is not unlike what Canada has as an estate tax system. In a nutshell, it proposes that gift and estate transfers become capital gains realization events, subject to certain exceptions. The exceptions include the expected, such as transfers to a spouse or charity for certain business interests, estates under a certain capital gains threshold, and on certain assets such as the personal residence, with exemption levels similar to what is already in the income tax rules. Such a change would trigger alternative techniques to reduce taxation and, in fact, reverse some of the traditional techniques. Additionally, President Trump has proposed lowering both the individual and corporate tax rates, including capital gains and the Affordable Care Act excise tax.

Summary

Changes that are likely to affect financial planning and tax situations are on the horizon. Stay in touch with your financial advisor to stay abreast of these changes to help navigate what Congress has in store in the coming years.

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