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Estate and Income Tax Proposals of the Presidential Candidates

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Over the last few months a political battle has raged between presidential contenders hopeful to be our 45th President. One of the key points of contention between the candidates has been their varying approaches to Estate and Income Tax reform. At this point, the Democratic Party candidate will be either Hillary Clinton or Bernie Sanders and the Republican Party will be represented by either Ted Cruz or Donald Trump. That being said, there is still the lingering potential for a brokered Republican convention to throw a significant twist on the election process. With each candidate having different perspectives on how to change income and estate taxes, this newsletter will focus on each of the four candidate's tax proposals in an unbiased manner and will not address the efficacy of each candidate's plan.

Hillary Clinton

Senator Clinton first wishes to add a 4% surtax on "high income" taxpayers while otherwise keeping our current tax brackets intact. This would work out to be a 43.6% tax rate on households with adjusted gross income (AGI) in excess of $5 million. Her plan also creates a 30% minimum tax on any taxpayer with AGI over $1 million. Senator Clinton also wishes to raise the qualified dividend and long-term capital gain income tax rate to 24%. Medium term capital gains tax rates would be somewhere between 27.8% and 47.4%. There is also the potential to cap tax-deferred and tax-free retirement accounts. Under Senator Clinton's plan one additional $1,200 tax credit would be added for caregivers. As far as the Federal Estate Tax, Senator Clinton would increase the top estate tax rate to 45% and lower the estate tax exclusion to $3.5 million per person (currently it is $5.45 million per person).

Bernie Sanders

Senator Sanders wishes to increase all current income tax brackets by 2.2% and at the same time add additional tax brackets of 37%, 43%, 48% and 52%. Senator Sanders would then tax all capital gains and qualified dividends at ordinary income rates for households with AGI over

$250,000. In order to fund certain health care initiatives, Senator Sanders would add a 2.2% health care premium based on household AGI. Itemized deductions would be limited to 28% on households with AGI over $250,000. Aside from personal income taxes, Senator Sanders would add a new 6.2% payroll tax for all employers. Finally, Senator Sanders would decrease the federal estate tax exemption from the current $5.45 million to $3.5 million. Estate tax rates above the exemption amount would range between 45% and 65%.

Ted Cruz

Senator Cruz wishes to simplify the current income tax structure by reducing the tax rate down to 10% for all taxpayers. Under Senator Cruz's plan, capital gains/qualified dividend income would be taxed at ordinary income tax rates. All itemized deductions would be eliminated, with the exception of the home mortgage interest deduction and the charitable deduction. Senator Cruz would then eliminate all payroll taxes, the alternative minimum tax, and eliminate the 3.8% Net Investment Tax. The final large-scale change under Senator Cruz's new tax regime calls for the elimination of the federal estate tax.

Donald Trump

As much as Mr. Trump and Senator Cruz seem to constantly be at odds with each other, their tax plans are remarkably similar. Mr. Trump's tax plan reduces income tax brackets down to 10%, 20% and 25%. Joint filers with AGI over $300,000 and single filers with AGI over $150,000 would pay at the top rate. Under Mr. Trump's new plan he would increase the single filing standard deduction to $25,000 and increase the joint filing deduction to $50,000. Again following the same direction as Senator Cruz, the Trump tax restructure eliminates all itemized deductions except the charitable deduction and the home mortgage interest deduction. Mr. Trump's tax plan calls for the elimination of the federal estate tax. According to Mr. Trump's official website, elimination of the estate tax would end the punishment of American families achieving the American Dream.

To give a bit more perspective on the candidate's estate tax positions, the most recent release of the US Treasury's "Green Book" recommends changing the federal estate tax exemption back to 2009 numbers of $3.5 million with a top tax rate of 45%. For the uninitiated, the US Treasury Green Book is comprised of Treasury tax policy recommendations that are necessary to adequately fund the government. All of the candidates profess and desire to "streamline" our tax regulation, which admittedly is quite complex and lengthy; however, there is often a large disconnect between political speech on the campaign trail and practical implementation once elected. If you require more details on each candidates tax plans, I recommend visiting their official websites.

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About the Author:

Spencer Baxter is an experienced problem solver who helps individuals and businesses achieve and protect their goals of prosperity, stability and growth through appropriate planning. Spencer takes great pride in making sure that his work for clients is always reliable, correct, and on time.