Mitch on the Markets

Tax Laws Are Changing – What Do You Need to Know?

By Mitch Zacks
Portfolio Manager

Tax time is just around the corner (April 18 this year), and there's a good chance the preparations you're making now will be significantly different this time next year. Indeed, the Trump Administration is taking aim at the tax code as one of their top priorities, and the Republican-controlled House of Representatives is already busy at work formalizing their proposals to change the rules (tax reform originates in the House).

As it stands today, we already have a good idea of how the proposals are shaping up and what the key ideas will be. Tax reform is tough though – there will be plenty of resistance from Democrats, and moving *any* kind of legislation through Congress has proven difficult over the last several years. An issue as contentious as tax reform isn't likely to be an exception.

We are not tax advisors here at Zacks Investment Management, but tax considerations play an important role in how we invest for our clients. Whether its capital gains, taxes on dividends and interest, estate taxes, or any other type of tax on income or investments, these impact the strategy recommendations we make to clients. That being said, the summary below is just what we know so far – moving legislation through Congress almost always results in the final legislation looking very different from what is originally proposed.

Income Taxes

The House GOP has proposed collapsing the seven current individual tax brackets down to three. This is what the new breakdown would look like:

- **33% -** top rate for individuals who make more than $112,500; for joint filers the income threshold would be $225,000
- **25% -** for individuals earning less than $112,500, and for joint filers earning less than $225,000
- **12% -** for individuals earning less than $37,500, and for joint filers earning less than $75,000
- The House GOP plan would also eliminate all itemized deductions

except for the mortgage interest deduction and the charitable contribution deduction

Taxes on Investments

Here's how the landscape may change for investors.

- Eliminate the 3.8% Obamacare surtax on investment income
- Reduce the Capital Gains Tax and the Dividend Tax Rate from 20% down to 16.5%
- Eliminate the Carried-Interest Deduction
- Eliminate the Estate Tax, which currently is a tax of 40% on estate assets in excess of $5.49 million

Small Business Owners

For small business owners registered as sole proprietors, LLCs, or S Corps, the plan would cap the top tax rate at 25%.

Bottom Line for Investors

Wait and see. That's the name of the game when it comes to tax laws and proposed changes, and the same applies to other policy proposals on the table right now. All things considered, however, the picture looks favorable for investors. A lower tax rate could save investors' money in strategies with higher turnover, and streamlined tax brackets with fewer deductions may make filing a bit simpler. The debate over the changes – and the progress of the legislation through Congress – will no doubt make for interesting viewing from here.

-Mitch

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.