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Trump’s Plan

• Increase economic growth through:
  - Less government regulation of businesses
  - Protect U.S. businesses and workers
  - Lower taxes
Tax Reform - Enactment Process

• Senate able to use reconciliation procedure to pass tax bill with 51 votes as long as:
  - Bill does not lose more than $1.5T in revenue over 10 years
  - Bill does not lose any government revenue after 10 years.
• Had to eliminate or cap popular deductions to recoup some of the revenue lost from reduced tax rates.
  - Individual changes expire to meet second requirement.
• Tax reform has winners and losers.
<table>
<thead>
<tr>
<th>Tax Reform</th>
<th>Individual</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Winners</strong></td>
<td><strong>Loser</strong>s</td>
<td><strong>Winners</strong></td>
</tr>
<tr>
<td>AMT Payers</td>
<td>High W-2 Earners (perhaps a small benefit)</td>
<td>Retail</td>
</tr>
<tr>
<td>Large Estates</td>
<td>Large Mortgages High State Taxes</td>
<td>Capital Intensive Businesses</td>
</tr>
<tr>
<td>Non-Service Pass-through</td>
<td>Personal Service Pass-through</td>
<td>U.S.-Based Multi-National Businesses</td>
</tr>
</tbody>
</table>
Tax Reform

• Curtails availability of itemized charitable contribution deduction due more generous standard deduction.
• IRA rejects charity workaround for $10,000 state tax deduction.
• Repeals deduction for investment fees and expenses.
  - Differing treatment for mutual fund and SMA expenses.
• Eliminates deduction for business entertainment expenses.
• State tax liability may increase as federal base increases.
Tax Reform – Wealth Transfer

- Unified lifetime estate / gift exemption doubled to $11.18M. No change to stepped-up basis.
  - Plan for possible lower future exemption.
  - Many states have lower death tax exemptions.
- Consider gifts while exemption is high (wait for regs).
- First spouse dying should file return to allow surviving spouse to use unused exemption (portability).
- Consider distributing low-basis assets from irrevocable trusts.
Tax Reform – Wealth Transfer

• Non-tax reasons for trusts:
  - *Providing for Family:* Keep assets away from children, heirs of your second spouse, or heirs of your spouse’s later spouse.
  - *Incapacity:* Prescribe specific tests for your incapacity.
  - *Creditor Protection:* Keep assets away from creditors and your children’s divorcing spouses.
  - *Charitable Goals:* Give assets to charity while providing family with adequate income.
“Tax Reform 2.0”

- Note: Congress must fund the government by September 30 to avoid a shut down.

- Individual and businesses
  - Make permanent individual and small business tax cuts (but also $10K limit on state tax deduction)
  - Allow new businesses to deduct more start-up fees (currently $1M)
“Tax Reform 2.0”

• Expand retirement savings opportunities:
  - Adopt new “universal savings accounts”
  - Allow 529 plans to pay for apprenticeship fees or help to repay student debt
  - Access retirement account penalty-free to pay for birth or adoption expenses

• Cannot pass Senate without Democratic support because bill would lose government revenue after 10 years.
Retirement Enhancement & Savings Act

• Permit multiple employer plan for small company workers.
• Provide tax credit for automatic plan enrollment.
• Repeal 70-1/2 maximum age for IRA contributions.
• Permit portability of annuity contracts between plans.
• Provide “fiduciary safe harbor” for prudent selection of annuity contracts.
RESA – Curtailment of “Stretch IRAs”

- Permit stretching of aggregate IRA balances < 450,000.
- Balance > $450,000 must be distributed within five years of death unless:
  - Beneficiary is spouse of the deceased.
  - Beneficiary is disabled or chronically ill.
  - Beneficiary is < 10 years younger than the deceased.
  - Beneficiary is child of the deceased who has not reached the age of majority.
Bipartisan Spending Agreement

• Increase federal spending by > $500B in 2018-19:
  - Additional defense spending: $165B
  - Emergency and overseas contingency funding: $140B
  - Additional non-defense discretionary spending: $131B
  - Disaster relief: $90B
  - Infrastructure improvement: $20B
  - Increase debt ceiling through March 2019

Source: What you Need to Know About the Senate Budget Deal, The Hill (February 8, 2018).
U.S. Annual Deficit

U.S. government borrowing
Net marketable borrowing by fiscal year (in billions).

Publicly Held Debt-to-GDP Ratio

Fiscal Realities

2018 Federal Spending ($4.1T) (in billions of dollars)

- Mandatory Programs: $2,546 (61%)
- Defense: $622 (15%)
- Domestic: $658 (16%)
- Interest: $316 (8%)

Source: The Budget and Economic Outlook: Fiscal Years 2018 to 202, Congressional Budget Office (Apr 2018)
Trump Foreign Relations

• “America First” policy: “peace through strength”.
  - Focus on Defense Department rather than State (diplomacy).
• Rejection of globalism, which has hurt American workers.
• Focus on domestic growth, not spreading democracy.
• Support nation’s right to protect borders.
• Bilateral rather than multinational treaty negotiations.
Trade

“[The problem is] more and more of our imports are coming from overseas.”

President George W. Bush (2000)
Trade

• Congress has delegated to the president the power to impose tariffs where necessary for reasons of national security.
• Trump has imposed tariffs so far totaling $165B on:
  - Chinese imports
  - Steel imports
  - Aluminum imports
  - Washing machine imports
  - Solar panel imports
  - As well as renegotiating NAFTA
• Concern that tariffs result in trade war and higher prices.
Trade

“Simply put, any policy proposal which drives up costs of Corona, tequila, or margaritas is a big-time bad idea. Mucho Sad.”

Senator Lindsey Graham (R-SC)
(February 2017)
2018 Elections – Senate

- Democrats must pick up two seats to claim majority.
  - Democrat pick-up opportunities: Arizona, Nevada, Tennessee.
  - But of 35 seats up for election, 26 are seats with a Democratic incumbent. Trump won 10 of those 26 states. Minnesota (Franken open seat) is another possible Republican pick-up.
2018 Elections – House Redistricting
2018 Elections - House

- Earlier this year, Supreme Court was asked to consider constitutionality of partisan gerrymandering.
  - Court ducked question, ruling on procedural grounds.
  - On remand, North Carolina federal appeals court held gerrymandering there unconstitutional.
  - Pennsylvania Supreme Court held partisan gerrymandering unconstitutional in that state, resulting in a redrawing of the districts in a manner favorable to the Democrats.
2018 Elections – House

- Democrats need to pick up 23 seats to control House.
  - Democrats must win popular vote by 7-11% to overcome effects of gerrymandering.
  - Republicans are defending 23 districts that voted for Clinton
  - *Cook Political Report*: Of the 66 contested races, Republicans are defending 62 and Democrats four.
  - *Fox News poll (Aug 21)*: Democrats lead 11% in generic ballot.

Sources: *Can Democrats win back the House in 2018? It’ll be tough*, Washington Post (Dec 5, 2017); *Just How Big of a Hurdle is Gerrymandering to Democrats’ Taking Back the House this November?*, Washington Post (March 31, 2018).
2018 Elections – House

• Consequences of Democratic-led House
  - Bog down the White House with investigations, subpoenas, requests for documents, and calls to testify.
  - Committee hearings on policies such as the travel ban, family separation, administration ethical misconduct, Trump private businesses.
  - Possible initiation of impeachment proceedings. (Conviction in Senate extremely.)
2018 Elections - Governors

- 36 gubernatorial elections next year, 26 in states held by Republicans.
  - Good change of D pick-ups: Illinois, New Mexico (open seat), Maine (open seat). Possible D pick-ups: South Carolina, Kansas, Tennessee, Oklahoma
  - Winners will influence redrawing of congressional House district boundaries after the 2020 census.
## 2020 Election – 21 Possible Democratic Presidential Candidates

<table>
<thead>
<tr>
<th>Federal</th>
<th>State Leaders</th>
<th>Business</th>
<th>Entertainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biden (VP)</td>
<td>Brown (Ca)</td>
<td>Schultz</td>
<td>Winfrey</td>
</tr>
<tr>
<td>Booker (NJ)</td>
<td>Bloomberg (NY)</td>
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<tr>
<td>Brown (Oh)</td>
<td>Cuomo (NY)</td>
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<tr>
<td>Castro (HUD)</td>
<td>Garcetti (LosA)</td>
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<tr>
<td>Harris (Ca)</td>
<td>Hickenlooper (Co)</td>
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<td>Holder (AG)</td>
<td>Landrieu (NoLa)</td>
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<tr>
<td>Gillibrand (NY)</td>
<td>McAuliffe (Va)</td>
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<tr>
<td>Kerry (State)</td>
<td>Patrick (Ma)</td>
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<td>Murphy (Ct)</td>
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<tr>
<td>Sanders (Vt)</td>
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<tr>
<td>Warren (Ma)</td>
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</tbody>
</table>
Economic and Market Consequences

• Fiscal stimulus, tax reform, reduced regulation should be favorable for economy and markets. Modulating effects:
  - Inflation concerns prompting higher interest rates
  - Trade policy / tariffs (including effect on developing nations)
  - Democratic triumph in midterm elections.
"I don’t believe Trump colluded with the Russians. I don’t think he even colludes with his own staff."

Sen. Lindsey Graham (R-S.C.)

(June 2017)
Treasury Debt

- **CBO:** High debt level increases risk that investors become unwilling to finance government borrowing unless compensated with very high interest rates.

- **Bloomberg:** With U.S. about to sell the most debt in eight years, Mnuchin may be relying on a buyer base that needs to see higher yields before loading up.

- **Goldman Sachs:** Increasing supply and Fed not buying means the government will have to pay investors more to buy U.S. debt.

- **Reuters:** Foreign investors are showing signs of fatigue in absorbing growing Treasuries, posing risk that bond yields spike.
Tax Planning

• Protect against tax volatility with diversity, flexibility to withdraw from taxable or tax-favored investments.

• Tax efficient investments:
  - Capital appreciation / dividend paying equities
  - Qualified plans
  - Life insurance
  - Annuities

• Investments that “build in” expenses may provide advantage in some cases.
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