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# What every financial planner needs to know about tax law changes going into effect in 2017 and a look into the crystal ball of tax law change

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# What's New for 2017

# Surface Transportation and Veterans Health Care Choice Improvement Act of 2015

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## 1. Business Tax Return Due Dates

- Partnership – New due date if March 15, six month extension to September 15
- S Corps – Unchanged at March 15
- C Corps – (FISCAL YEAR) New due date is April 15, for tax years ending on or before 12/31/2015 only FIVE month extension.



# Surface Transportation and Veterans Health Care Choice Improvement Act of 2015

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## 1. Business Tax Return Due Dates

- Trusts – Unchanged at April 15
- FinCEN Report 114– Moved up to April 15 WITH an extension. However, how do you extend? We don't know yet.

# Update on Foreign Bank Account Reporting

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- **FinCEN now offers an alternative FBAR e-filing method.**
  - Web Browser instead of PDF
  - Only Available to Individual Filers NOT Agents

ON THAT NOTE: The beginning of the end of Streamlined Procedures?



# Update on Foreign Bank Account Reporting

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- **55,800 in OVDP - \$9.9B in taxes**
- **48,000 in Streamlined Procedures – \$0.45B**
  
- **How long will it last?**
  
- **“As long as there is a business purpose”**



# Bipartisan Budget Act of 2015

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## **MAJOR Changes to Partnership Audit Rules**

**Effective Date:** Applies to partnership taxable years after 12/31/2017. Opt-outs can occur for taxable years beginning after 11/2/15 and before 1/1/2018.



# Bipartisan Budget Act of 2015

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## **MAJOR Changes to Partnership Audit Rules**

TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) provided the old rules for auditing partnership. Adjustments flowed down to partners.

Partnerships could be audited under three sets of rules:

1. Unified Audit Rules
2. Small Partnership Rules
3. Electing Large Partnership Rules





# Bipartisan Budget Act of 2015

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## **MAJOR Changes to Partnership Audit Rules**

This ACT repeals TEFRA. New audit rules:

- a) Any adjustments are determined at the PARTNERSHIP level
- b) Each partner's return must be consistent with the partnership's return
- c) Each partnership must designate a partner as the representative. Partnership and representative receive notice of proceeding and adjustment.



# Bipartisan Budget Act of 2015

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## MAJOR Changes to Partnership Audit Rules

### OPT OUT

- Partnerships with 100 or fewer partners
- To opt out, each partner must be
  - i. Individual
  - ii. C Corporation
  - iii. Foreign entity that would be treated as a C Corporation if it were domestic
  - iv. S Corporation (EACH SHAREHOLDER COUNTS)
  - v. Estate of deceased partner



# Surface Transportation and Veterans Health Care Choice Improvement Act of 2015

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## Mortgage Reporting Requirements

- Requires tax information returns reporting mortgage information to include the following additional information:
  - i. Outstanding Principal
  - ii. Date of origination.
  - iii. Address of property which secures the mortgage.
  
- Effective date: Reports after 12/31/16

# Surface Transportation and Veterans Health Care Choice Improvement Act of 2015

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## Estate Basis Reporting

### ONLY APPLIES FOR TAXABLE ESTATES

- Executors must disclose to the IRS and to persons acquiring any interest in the estate information about the value of property received.
- Must be furnished within 30 days of the estate tax return date.
- No reporting required until 2/29/16 **ADDITIONAL EXTENSION TO 6/30/16**



# Reasonable Compensation

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- **C CORPORATIONS: Reasonable Compensation**
  - **Brinks Gilson & Lione A professional Corporation v. Commissioner**
    - Law Firm zeroed out net income with salary deductions
    - Reliance on accounting firm failed



# ALSO LOOK OUT FOR MODIFICATION TO RMD RULES

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- **Markup coming out of joint committee of taxation (JCX 87-16:**
  - **For amounts in DCP's over \$450,000**
  - **Mandatory 5 year RMD EXCEPT for**
    - **Spouses**
    - **People within 10 years of age**
    - **Disabled persons**
    - **Children not 18 years old yet (but 5 year RMD period starts at 18)**



# FAST Act

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## **Passport Revocation for Seriously Delinquent Debt**

New Code Section 7345, “seriously delinquent tax debt” is grounds for denial, revocation, or limitation of a passport.

- \$50,000 (adjusted for inflation) unpaid, legally enforceable federal tax liability, notice of lien or levy has been filed.
  - Are penalties and interest included?



# FAST Act

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## **Mandatory Outsourcing of Collections**

Amends Section 6306 requiring the IRS to enter into qualified tax collection contracts “for the collection of all outstanding inactive tax receivables.” Defined as:

- IRS has removed from active inventory
- Has not been assigned to an employee when more than 1/3 of the limitations period has expired
- More than 365 days of inactivity have passed in collections

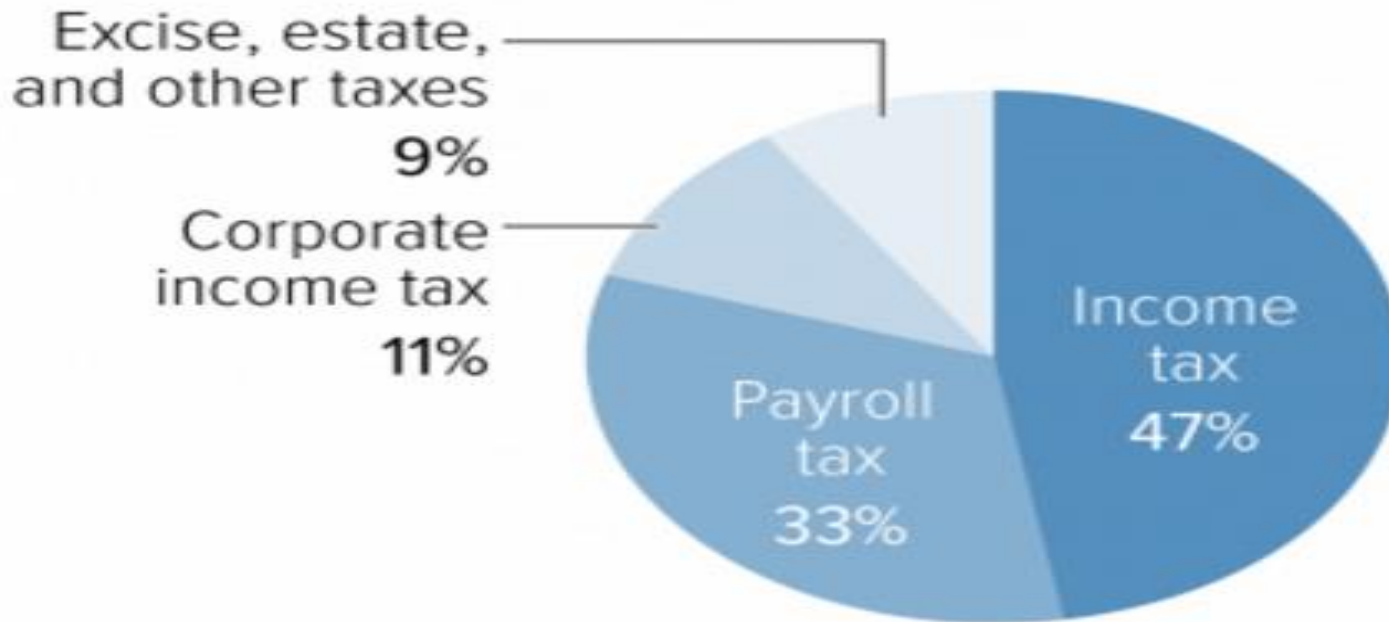






# THOUGHTS ON WHATS TO COME

# Sources of Federal Tax Revenue, 2015



Note: "Other Taxes" category includes profits on assets held by the Federal Reserve.

Source: Office of Management and Budget



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# ESTATE TAX

# Proposed Regulations Under Section 2704

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- Transfer within 3 Year
- Applicable Restrictions
- Disregarded restrictions



# Proposed Regulations Under Section 2704

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- Results:
  - Would presumably gut most marketability and lack of control discounts
  - Would this be applicable to legitimate business enterprises as well?
  - What about legitimate transfers within 3 years of death?



# Proposed Regulations Under Section 2704

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What's the latest:

- Originally Issued in July 2016
- Over 10,000 comments filed!
- It appears as though this will be softened significantly, IRS doesn't appear to be aiming at discounts in the same way original perceived, but nothing new as of yet.



# BUT ALSO

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President-Elect/Republican congress proposal to

# ELIMINATE

Estate Tax Looms

HOWEVER, eliminates step up in basis for formerly taxable estates (over \$10M).

# Estate Tax Repeal Note

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What does the basis step up mean?

DEFERRAL but not AVOIDANCE of (capital gain) tax on items.

Note: capital gain tax rate vs. estate tax rate





# My Thoughts? – Estate Tax

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Well, if I knew for sure I would be probably be making money on a prediction website BUT:

In 2015:

- 11,917 returns filed
- \$17.1 Billion Collected
  - Total Tax Revenue in 2015 was \$3.25 Trillion
  - ~0.53% of total Tax Revenue
  - \$115 for every person in the country who had either a full-time or part-time job in September 2015)



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The Population Division of the Bureau of the Census projects that 2.6 million people will die in 2015.

Thus, an estate tax return will be filed for only 1 in 240 decedents, and only 1 in 495 will pay any estate tax.



# My Thoughts? – Estate Tax

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54% of Americans in a recent survey wanted it repealed





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# PERSONAL INCOME TAX

# Proposals

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**Table 1. Individual Income Tax Brackets Under the Trump Plan**

Ordinary Income Rate	Capital Gains Rate	Single Filers	Married Joint Filers
12%	0%	\$0 to \$37,500	\$0 to \$75,000
25%	15%	\$37,500 to \$112,500	\$75,000 to \$225,000
33%	20%	\$112,500+	\$225,000+

# Proposal

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- Eliminates the personal exemption
- Introduces other childcare-related tax provisions
- Caps itemized deductions at \$100,000 for single filers and \$200,000 for married filers



# THE SACRED COWS

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# THE SACRED COWS

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- Mortgage Interest Deductions
- Property and State Tax Deductions
- Charitable Deductions



# Proposals

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- ELIMINATE THE NET INVESTMENT INCOME TAX (3.8% surcharge on certain passive income)
- ELIMINATE THE ADDITIONAL MEDICARE TAX (0.9% tax on wages above a threshold)
- TAXES CARRIED INTEREST AS ORDINARY INCOME
- ELIMINATES THE AMT (**good riddance!**)





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# Business Taxes

# Proposal

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- Corporate income tax rate reduced from 35 percent to 15 percent
  
- Eliminates corporate AMT



# My Thoughts?

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- Bipartisan business tax reform has been rumored to be close to completion for years.
- Recent action by other countries (UK goes from 30% to 20%)
- Argument that currently offshored profits would no longer be deferred (\$2.4T, ~\$700B in taxes about equal to 200% of the annual business taxes collected)



# Questions?

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Feel free to call or email me! I'm always happy to give a quick answer on the phone or via email at no charge!

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