



THE WASHINGTON UPDATE[®]
FROM ANDY FRIEDMAN

Presented by: Jeff Bush

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Current Focus

- Understanding The New Administration
- GOP Legislative Agenda
- Fiscal Realities
- Inflection Point For Investors

President Trump

Photo by Isaac Brekken/Getty Images



Pro-Business

Populist

Income/Wealth Inequality

“Economic disparities appear to be reaching extremes that are damaging to growth.”

Standard & Poor's (August 2014)

Income/Wealth Inequality

- Middle class is no longer the nation's majority
- Wealth begets more wealth

Market return 2008-2015: **190%**

Wage increase 2008-2015: **15%**

Sources: *CNBC Nightly Business Report* (March 9, 2016); *5 facts about economic inequality* Pew Research Center, (Jan., 2014); *The American Middle Class Is Losing Ground*, Pew Research Center (December 2015). Kent Conrad, senior fellow at the Bipartisan Policy Center, testimony delivered to Senate Committee on Banking, Housing and Urban Affairs, February 2017

Income/Wealth Inequality

- Percent of income earned by top income earners

	1980	2015*
One percent	8%	19%
Ten percent	32%	45%

*Most recent data available from the IRS

Source: *Fairness and Tax Policy, Joint Committee on Taxation (February 2015).*

Economic Philosophical Debate

Democrats:

Capitalism favors the rich. Government must promote fairness by redistributing income. Taxation should be more progressive.

Republicans:

Focus on stronger economic growth, not bigger government. Further taxing the wealthy thwarts entrepreneurial spirit.

Source: The American Middle Class Is Losing Ground, Pew Research Center (December 2015)

Economic Philosophical Debate

Democrats:

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Populist

Republicans:

Focus on stronger economic growth, not bigger government. Further raising taxes on wealthy thwarts entrepreneurial spirit.

Pro-Business

Source: The American Middle Class Is Losing Ground, Pew Research Center (December 2015)

President Trump

“This president is very dangerous to children and other living things.”

House Minority Leader, Nancy Pelosi (February 10, 2017)

Legislative Agenda

- **GOP swept all 3 players in the legislative process**
- **2 checks on presidential overreach**

Power Checks on Trump

- **Senate- GOP only holds a simple majority**
 - Well short of a (60 vote) filibuster minimum
 - Bust the filibuster
 - Reconciliation

- **GOP Deficit Hawks**

Trump's Economic Mandate

- **Increase Economic Growth**
 - Trade
 - Repeal & Replace ACA
 - Lower Taxes
 - Lessen Government Regulation

Policy & Legislative Proposals

Foreign Relations & Trade

- **America First, Peace Through Strength**
- **Rejection of Globalism-** Hurt American workers
- **Focus on Domestic Growth vs. Global Promotion of Democracy**
- **Bilateral vs. Multi-National/Regional Trade Deals**

Trade

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

President George W. Bush (2000)

Policy & Legislative Proposals

DACA Dinner Agreement

- Path to citizenship?
- Border security funding- How robust?
- Unlimited family reunification

Policy & Legislative Proposals-ACA Replacement Status

- **Marketing problem**
- **Areas of agreement with ACA**
 - Children stay on parents plan until 26
 - No pre-existing exclusions
 - No life time maximum limits
- **#1 GOP fundraising issue**

Policy & Legislative Proposals-ACA Replacement Status

- **President's recent actions**

- Expands the use of Association Plans (self insured)
- Short term plans extended to 1 year
- Ends benefit subsidy payments

- **Bi-Partisan effort**

- Fund benefit subsidies for 2 years
- Expansion of state's flexibility

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Fiscal Policy

Income/Wealth Inequality

- Percent of income earned by top income earners
- (% of taxes paid)*

	1980	2015**
One percent	8% (19%)	19% (49%)
Ten percent	32% (49%)	45% (82%)

*These are the highest tax figures ever recorded

**Most recent data available from the IRS

Source: *Fairness and Tax Policy, Joint Committee on Taxation (February 2015).*

Fiscal Proposals

“We have what it takes...
to take what you have.”

Unofficial Motto of the
Internal Revenue Service

The American Family Story

2016	
Salary	\$327,000
Spend	\$385,000
Net new debt	\$ 58,000

2017	
Salary	\$340,000
Spend	\$396,000
Net new debt	\$ 56,000

Total Debt	\$2,000,000
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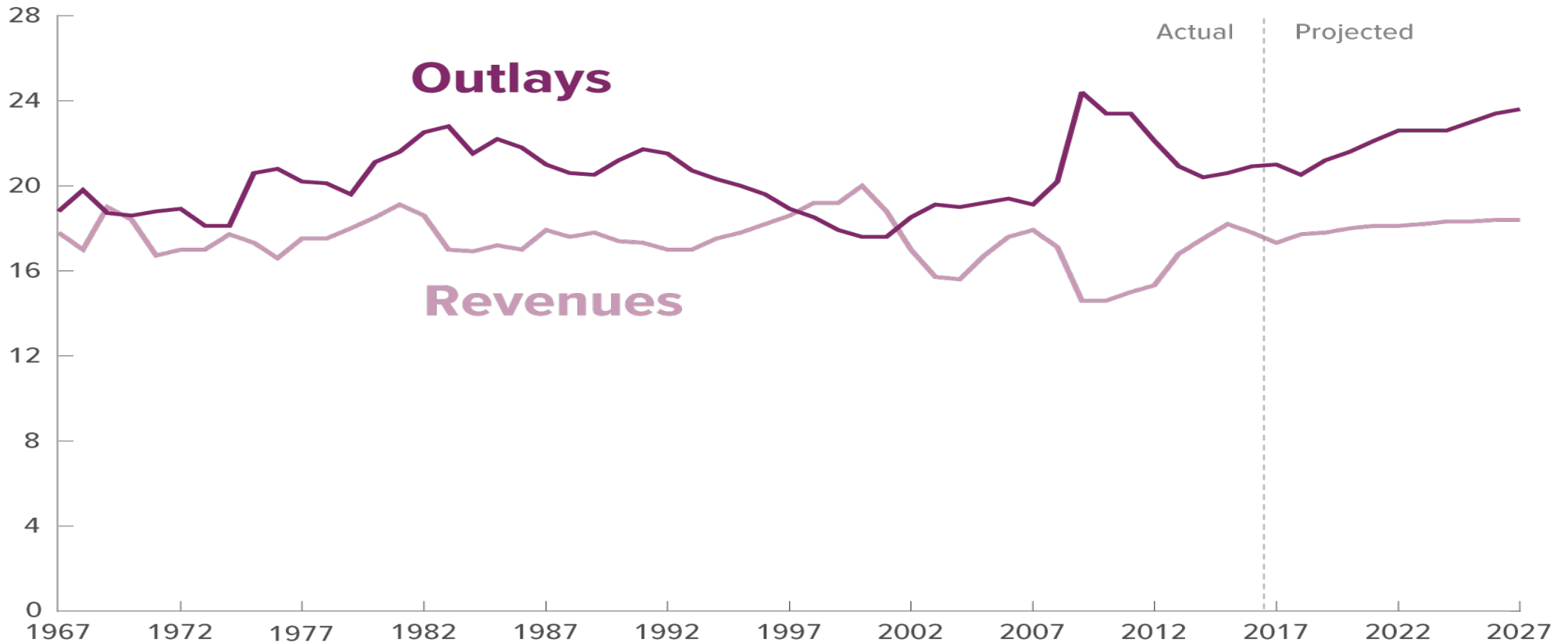
The American Story

	2016	
Revenue/Taxes		\$3,270,000,000,000
Spending		\$3,850,000,000,000
Net new debt		\$ 580,000,000,000
	2017	
Revenue/Taxes		\$3,400,000,000,000
Spending		\$3,960,000,000,000
Net new debt		\$ 560,000,000,000
Total Debt		\$20,000,000,000,000

CBO June 2017 report An Update to the Budget and Economic Outlook: 2017 to 2027

The American Family

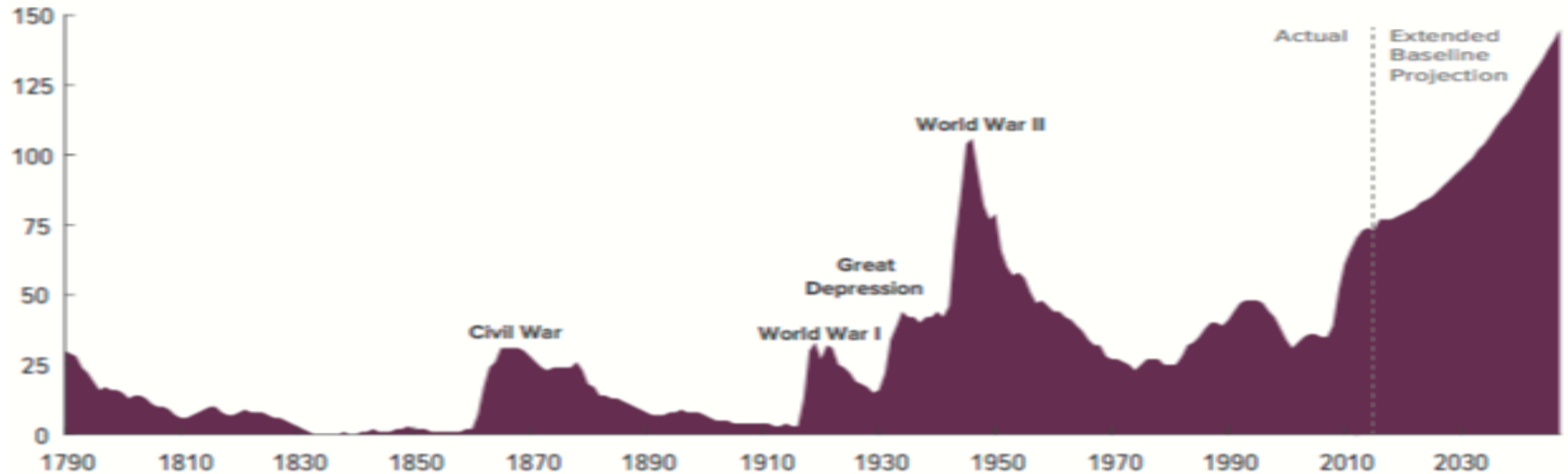
Percentage of GDP



Fiscal Realities For Both Parties

Federal Debt Held by the Public

Percentage of Gross Domestic Product



CBO Update To The Budget And Economic Outlook: 2017-2027, January 24, 2017

Tax & Spend

Fiscal Proposals-Tax Policies

• Tax Policy/Reform- Trump vs. Ryan

- New Debate- Revenue Neutral vs. Less Revenue
- Winners and Losers
- Rates proposed

Earned & Ordinary	Capital Gains	Single Filers	Married Joint Filers
0%	0%	?	?
12%	0%	\$? to \$37,500	\$? to \$75,000
25%	15%	\$37,500 - \$112,500	\$75,000 - \$225,000
35%??	20%	\$112,500 +	\$225,000 +

2017 Tax Reform for Economic Growth and American Jobs, April 26, 2017 & Unified Framework for fixing our Broken Tax Code, September 27, 2017



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Fiscal Proposals- *Individual taxes*

- Lower Marginal Rates
- Standard Deduction Doubles
- **3.8% ACA “Obamacare” Tax Eliminated**
- Mortgage, Charitable and Retirement Tax Breaks Maintained
- State & Local Tax Deduction & others would go away
- Eliminate AMT (Alternative Minimum Tax)
- **Cap Itemized Deductions- \$200K for Couples**
- Repeal Estate Tax and GST Tax
 - **Loss of stepped up basis for estates >\$10mm**

Fiscal Proposals-*Corporate/Business taxes*

- 20% Max Corporate Rate
- 25% Max Marginal Rate For Pass Through Owner's Business Income
- Immediate Expensing for at least 5 years
- Territorial Tax System (flip/flop)
- 10% Repatriation Tax of Off Shore Earnings
- Interest deductibility limited for C-Corps, perhaps pass through
- Carried Interest Taxed as Ordinary Income
- House Focused on Border Adjustments
 - Profits from exports not taxable
 - Expenses from Imports not deductible

Fiscal Realities For Both Parties

Highest Marginal Tax Rate



Tax Foundation

Fiscal Proposals-Tax Policies Cont.

- Dynamic Scoring
- Permanence, Appearance of- Expanded budget window
- Tax Expenditures- **Tax Deductions**



- Lower marginal rates
- Elimination of the AMT (Alternative Minimum Tax)
- Lower maximum corporate rate including pass through companies
- Immediate expensing
- Territorial Tax

Fiscal Proposals-Tax Policies Cont.

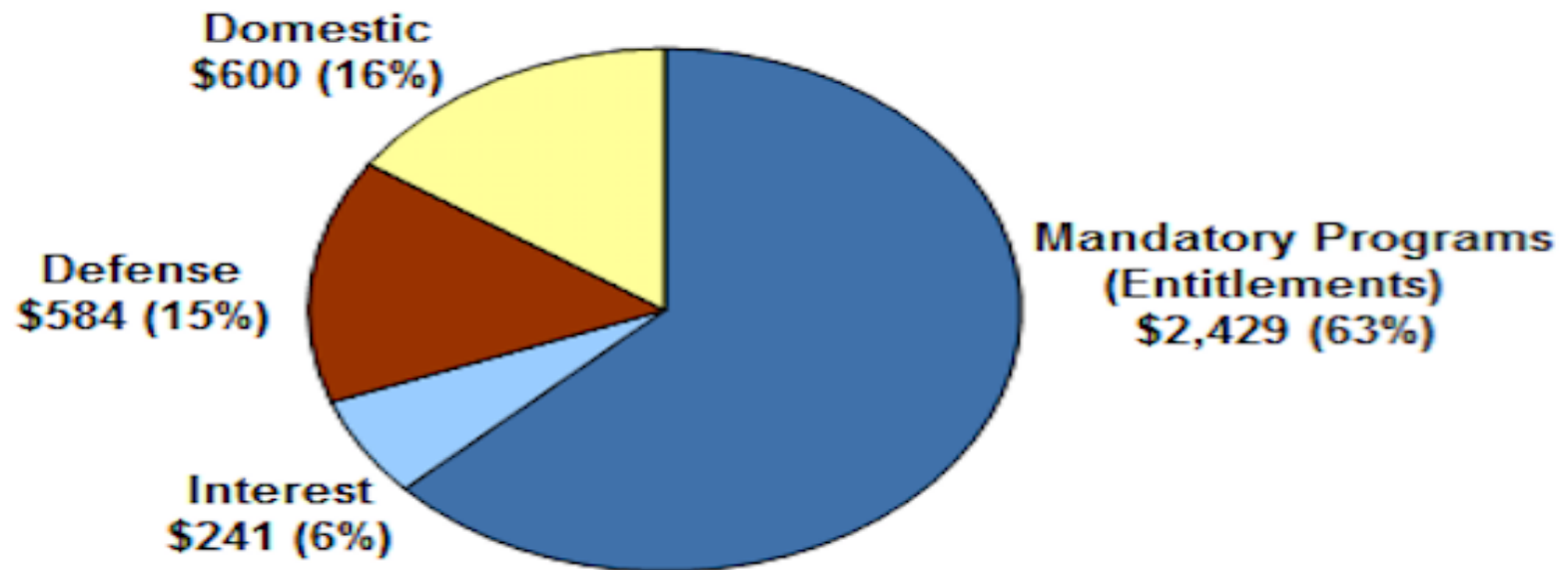
- Top 10 Tax Expenditures/Deductions

1. Pre-Tax contributions for medical premiums- \$222B
2. Long Term Capital Gains rate- \$110B
3. Exclusion of net imputed rental income- \$110B
4. Deferral of income from controlled foreign corporations- \$107B
5. Defined Benefit Pension plan contributions- \$71B
6. Defined Contribution pre-tax contributions- \$65B **> \$136 Billion**
7. Mortgage interest rate deduction for owner-occupied residences \$64B
8. State and local tax deduction- \$60B
9. Step-up basis at death- \$52B
10. Charitable deduction, other than health and education- \$48B

Analytical Perspectives, Budget of the U.S. Government Fiscal Year 2018

Fiscal Proposals- Spending

Increased Defense & Infrastructure Spending



Source: *The Budget and Economic Outlook: Fiscal Years 2017 to 2027*, Congressional Budget Office (Jan 2017)

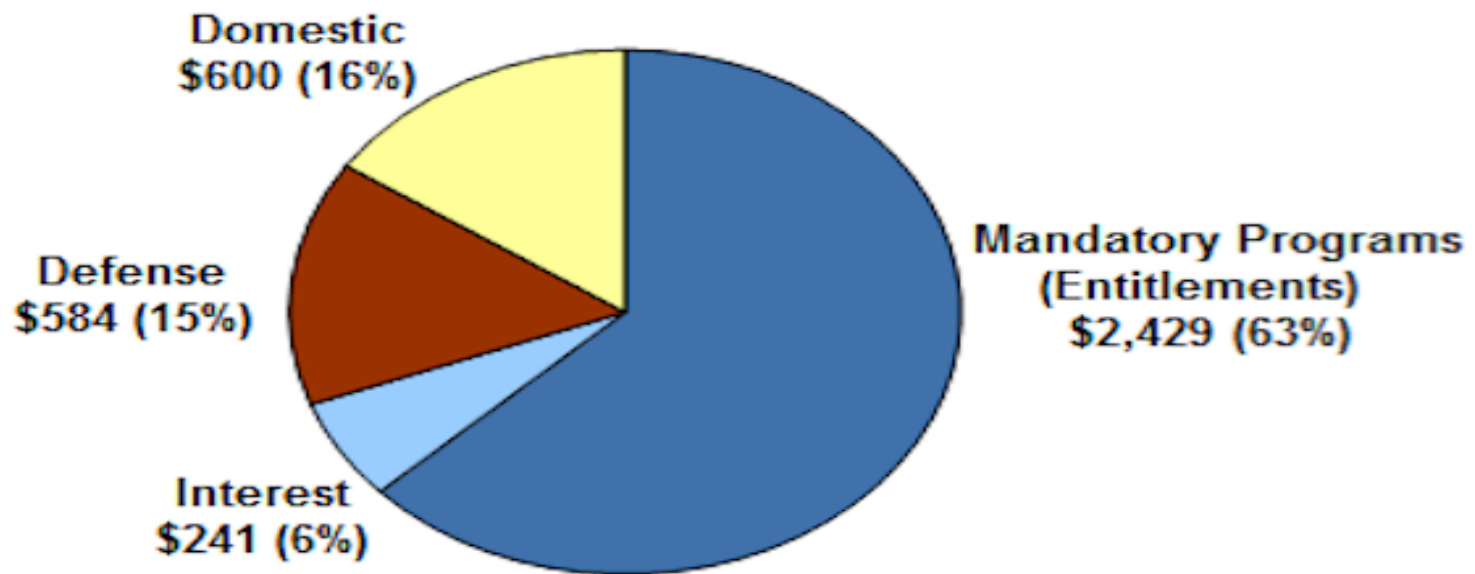
Fiscal Proposals-Tax Policies Cont.

POTUS Fiscal Spending 2018

- **Defense spending up 10% (\$54B)**
- **Paid for with 10% cuts to domestic spending**
 - Largest cuts: EPA (31%), State (29%), Agriculture (21%), Labor (21%)
 - Exempt departments: Homeland Security and VA
- **\$1.7T cuts to “safety net” programs**
 - Medicaid, SSDI and CHIP- work requirements on able bodied
 - Disproportionate impact on low income Americans
- **Down payment on infrastructure repair-jobs program**

Fiscal Proposals- Spending

Ignoring The Elephant In The Room



Source: *The Budget and Economic Outlook: Fiscal Years 2017 to 2027*, Congressional Budget Office (Jan 2017)

Economic & Market Consequences- Short Term

- **2018 Budget-Congress controls the purse strings**
 - Expect Democrats & some GOP to push back against cuts
 - Appropriations bills require 60 votes in the Senate

- **Debt Ceiling must be raised-**
 - Also requires 60 votes in the Senate

Economic & Market Consequences- Short Term

- 2018 Budget-Congress controls the purse strings
- Expect Democrats & some GOP to push back against cuts
- Appropriations bills requires 60 votes in the Senate
- Debt Ceiling must be raised- late summer/early fall
- Also requires 60 votes in the Senate

Short Term Continuing Resolution

Economic & Market Consequences- Med/Long Term

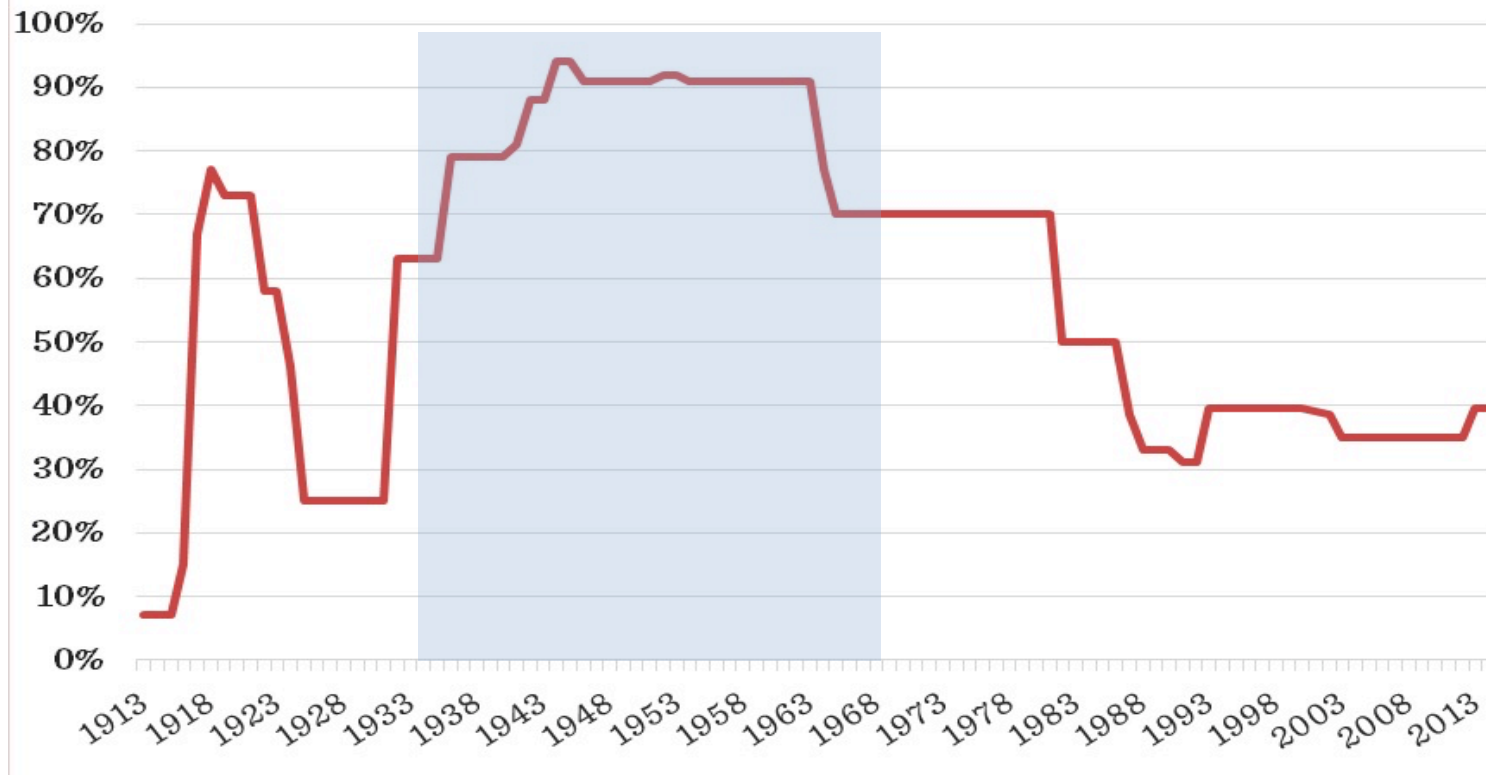
- **Positives:** Tax Reform, Deregulation, Low Interest Rates
- **Modulating Potentials:**
 - Federal Government Spending Cuts
 - Trade Policy Wild Card
 - Inflation Concerns- Fed looking to unload their balance sheet
 - Ongoing Special Counsel Investigation
- **Longer term deficit growth- causes excessive borrowing**
- **Interest rate/inflation increase?**

Investment/Tax Planning

- **Marketplace Stabilization**
- **Tax Cuts vs. Reform and Deadlines**
- **Advisor role more vital than ever**
 - Value is created by marrying...
asset allocation with asset location
 - **Asset volatility vs. tax volatility**
 - **3 bucket strategy-** Taxable, Tax Free and Tax Deferred

Fiscal Realities For Both Parties

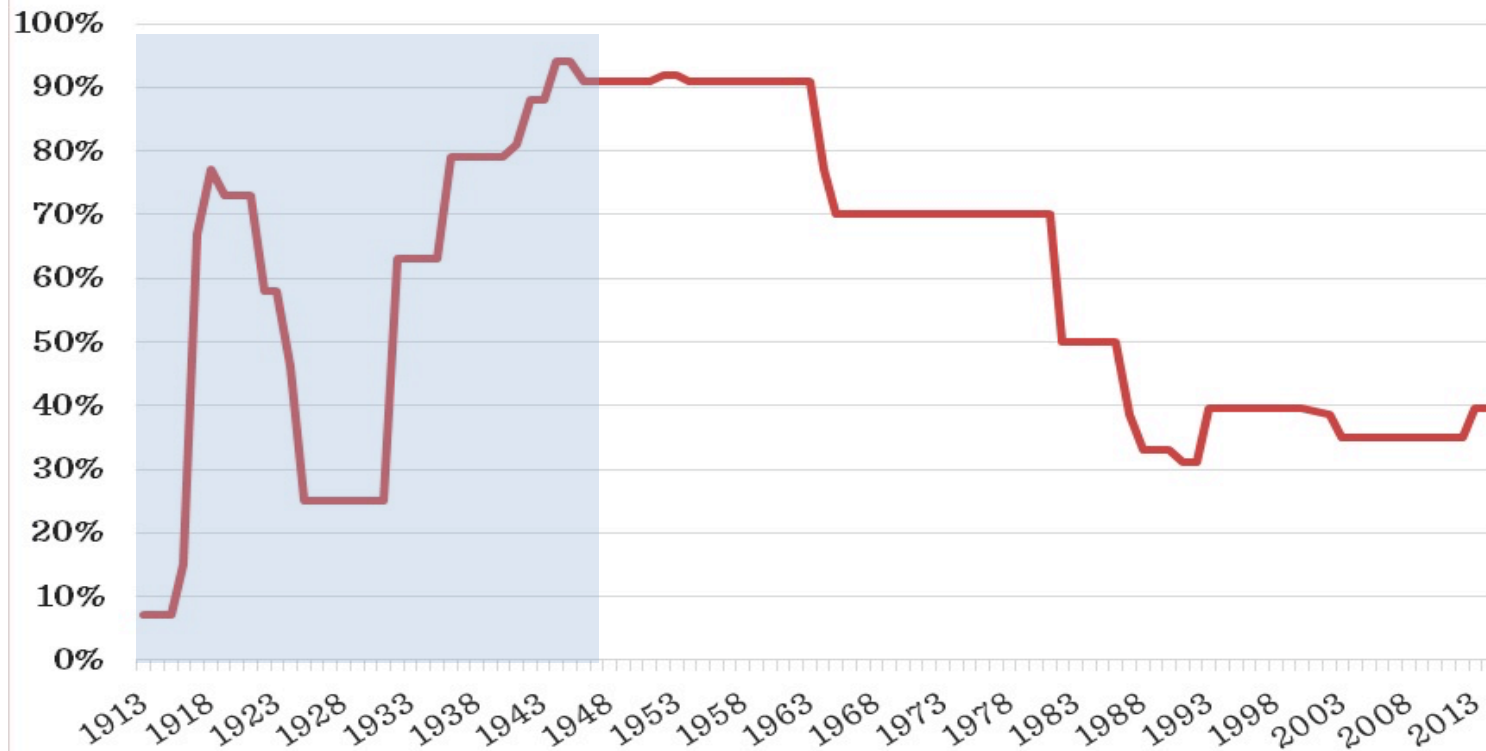
Highest Marginal Tax Rate



Tax Foundation

Fiscal Realities For Both Parties

Highest Marginal Tax Rate



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Fiscal Realities For Both Parties

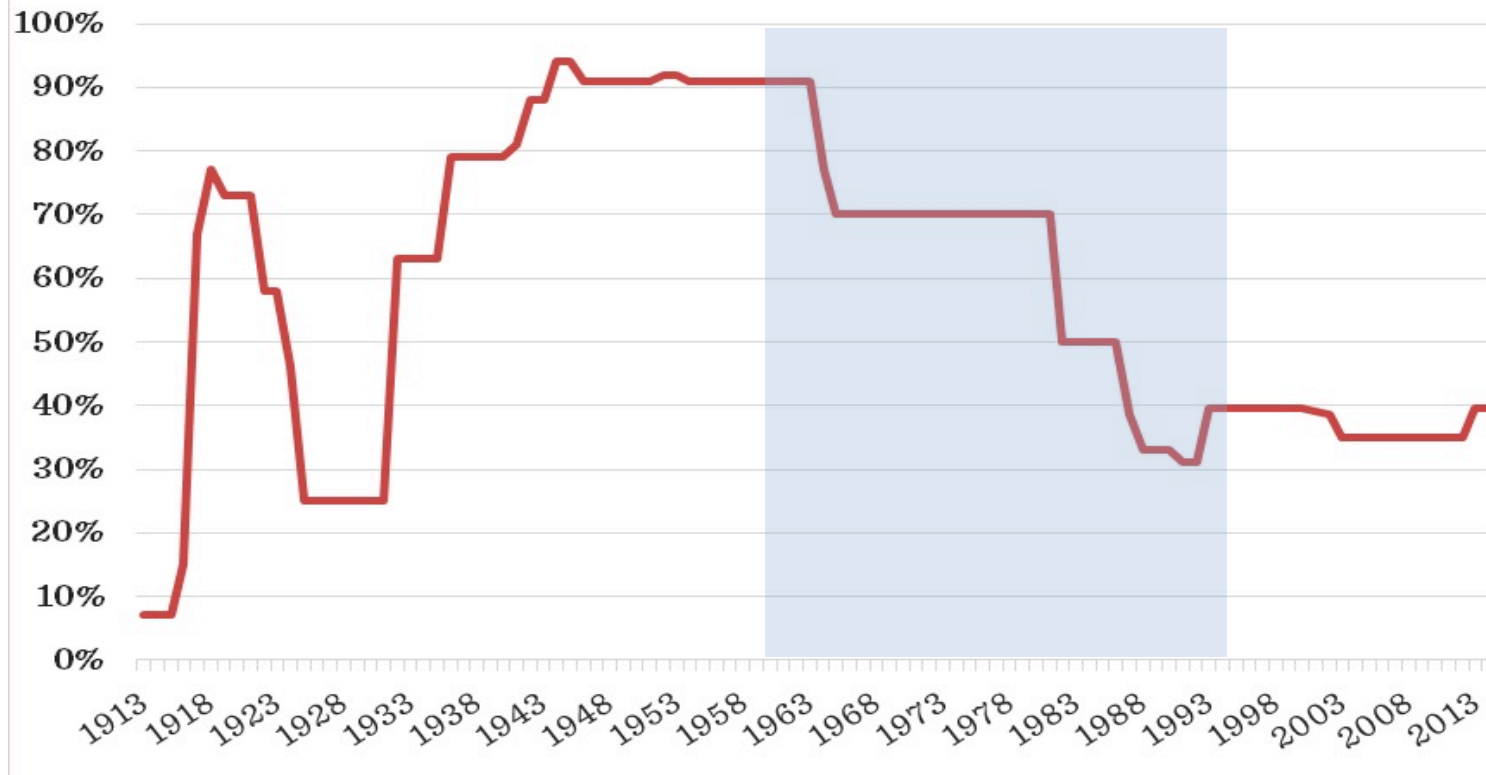
Highest Marginal Tax Rate



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Fiscal Realities For Both Parties

Highest Marginal Tax Rate



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Investment/Tax Planning

- **Marketplace Stabilization**
- **Tax Cuts vs. Reform and Deadlines**
- **Advisor role more vital than ever**
 - Value is created by marrying **asset allocation with asset location**
 - **Asset volatility vs. tax volatility**
 - **3 bucket strategy-** Taxable, Tax Free and Tax Deferred
 - Diversify sources of income generation
 - Municipal bonds
 - Life Insurance
 - Tax-efficient mutual funds
 - -Annuities
 - -MLP's
 - -Pre & Post tax Ret plans
- **Long term care planning**

TO STAY CURRENT



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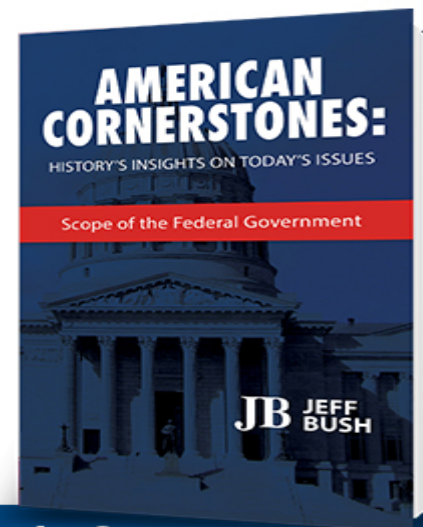
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