Tax Tidbits

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Huge Tax Reform

We Americans have heard about tax reform from the current administration since before they were elected. I have written about the manifesto that the White House issued in April 2017. Now another integration of tax reform has been issued. On September 27, 2017, the "Unified Framework for Fixing our Broken Tax Code" was released. It reads like a business plan more than a proposed tax code. It starts out by saying that President Trump has laid out four principles for tax reform:

1. Make the tax code simple, fair and easy to understand.
2. Give American workers a pay raise by allowing them to keep more of their hard earned paychecks.
3. Make America the jobs magnet of the world by leveling the playing field for American businesses and workers.
4. Bring back trillions of dollars that are currently kept offshore to reinvest in the American economy.

The Trump Administration appears to be aiming at developing and effectuating the broad sweeping tax reform that will come about with tax laws tantamount to President Reagan's Tax Reform Act of 1986. Not only did that tax law lower tax rates drastically and eliminate some deductions and complexity, it immortalized Ronald Reagan as a president that got both political parties unified to pass sweeping tax reform that still, for the most part, is our nation's tax foundation over 30 years later. It is my opinion, as well as the opinion of many others, that President Trump is striving for the same type of tax reform immortality. One of the cornerstones of the plan is tax relief for middle class families. The Pew Research Center defines middle class as annual income for a four person household between $46,960 and $140,900 or income higher than the poorest 20% and lower than the wealthiest 20%. These income figures would translate to income being taxed in either of two of the three proposed total tax brackets – 12% and 25%.

Further assisting the middle class would be the proposed doubling of the standard deduction to $24,000 for married taxpayers filing jointly and $12,000 for single filers. These larger standard deduction amounts would incorporate the additional standard deduction for age and blindness and the personal exemption. This change is fundamental to a simpler, fairer system. There is mention of "an additional top rate", which may apply to the highest income taxpayers to ensure that the reformed tax code is at least as progressive as the existing tax code; therefore, preventing a shift of tax burden from high income to lower and middle income taxpayers. The proposed elimination of the Alternative Minimum Tax (AMT) allows for further simplification of the tax code, because it no longer serves its intended purpose and would eliminate taxpayers requirement to do their taxes twice. Elimination of the AMT is a revenue reducer for the government. A revenue enhancer would be the proposed changes to the itemized deductions, of which only the mortgage interest and the charitable contributions deductions would survive. According to the New York Times, the elimination of the deduction for state and local taxes would add $1.3 trillion to federal revenues.

The elimination of the state tax deduction is already causing quite a stir. Proposed amendments to the tax plan may allow taxpayers to choose between a state and local tax deduction or a mortgage interest deduction. These are the highlights to a host of other changes being proposed that will have an effect on individual taxes.

Business Tax - right out of the gate the Unified Framework would lower the maximum corporate tax rate from 35% to 20%. The plan also lowers the maximum tax rate for small businesses to 25%. These small businesses include sole proprietorships, partnerships and S Corporations. The plan also calls for C Corporations to lose the deduction for interest expense. This would make it more expensive for financial corporations to borrow money to lend and invest. The plan also promotes a "territorial" tax system. The plan will not tax income that businesses earn overseas. It would allow a one-time tax "holiday" on past overseas earned income. Trump's original plan taxed that money at 10%. The territorial system is designed to incentivize corporations to bring money back into the United States.

One last benefit for those individuals with large amounts of assets to leave to the next generation, the Unified Framework repeals the death tax and the generation-skipping transfer tax.

See **Tax Reform** *on Page 3*

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Portability Election - IRS Issues New Guidance

Portability was first introduced with the Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010 and became effective for married taxpayers dying on or after January 1, 2011. It became permanent with the enactment of the American Taxpayer Relief Act of 2012 and is now a permanent part of the transfer tax system.

A portability election allows a decedent's unused exclusion amount for estate and gift tax purposes to be available for the surviving spouse's subsequent transfers during life or at death. The election must be made on a timely filed Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return. The IRS has issued new guidance permitting certain estates to make a late portability election if they did not make a timely election.

Form 706 must be filed when a U.S. citizen's gross estate plus adjusted taxable gifts given during the decedent's lifetime are valued at more than $5.49 million as of 2017. If the decedent was married and the surviving spouse wants to make a portability election, Form 706 will also need to be filed, even if the estate is valued at less than $5.49 million for 2017. Under this rule, a surviving spouse can elect to pick up his/her deceased spouse's unused estate tax exemption and add it to his/her own federal estate tax exemption.

For example, if a taxpayer passes away and his/her estate is worth $2 million, Form 706 would not need to be filed. If you want, however, to pass the remaining exclusion to the surviving spouse, a timely filed Form 706 will need to be filed so that the surviving spouse can include the remaining unused spouse's exemption of $3.49 million ($5.49 million less the $2 million) to his or her own exemption of $5.49 million, making it a total $8.98 million Federal estate tax exemption.

The IRS only allowed you to make this election on a timely filed Form 706 or to submit a ruling request. Ruling requests are expensive and time-consuming. Many individuals feel that they will not need the spouse's unused Federal estate tax exemption and do not file Form 706. Life is unpredictable, you may win the lottery, remarry and continue to build your estate, receive an inheritance or any number of things. Without filing Form 706, the portability election is lost.

The good news is, if you have not filed a timely Form 706, the IRS provides a simplified method to request an extension of time to make a portability election. The executor must file Form 706 on or before the later of January 2, 2018 or the second annual anniversary of the decedent's date of death.

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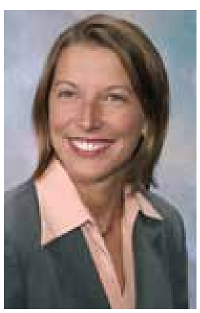
Preparing For Winter Weather



Fall has arrived, but there's still time to get ready for winter weather, including storms. Extreme cold is always a possibility here in Upstate New York, so we at Valicenti Insurance Services, Inc. have compiled some tips to help you stay safe and to limit damage.

Preparing your home

- Perform basic winter maintenance — insulate your walls and attic, caulk and weather strip doors and windows and insulate water lines that run along outer walls. When temperatures drop, keep water taps slightly open so that they drip continuously and keep the cabinets under sinks open to allow warmer air in.
- If you use a fireplace or wood stove, have the chimney or flue inspected each year. Make sure your house has working smoke and carbon monoxide detectors and test them monthly.
- Check your emergency supplies and ensure that you have adequate food and water, along with a battery powered radio, in the event of an extended power outage. You'll want a week's worth of supplies or more, if you live in a remote area.

Preparing your car

- Have your vehicle serviced according to the manufacturer's recommendations. Check the antifreeze level.
- Keep the gas tank near full, which helps avoid ice in the fuel lines and the gas tank itself.
- Replace wiper fluid with a wintertime mixture.
- Make sure your tires are in good shape and have the proper air pressure.
- Check to confirm that your battery has a good charge, your heater and defroster are working well and that your emergency lights are functional.

Preparing yourself

- Always wear temperature appropriate clothing, such as hats, gloves, scarves, etc. Remove any wet clothing immediately. Keep spare clothing in your car trunk throughout winter in case you are stranded or stuck.
- Stay hydrated. You might think this is more important when it's warm outside, but it's just as vital in winter.
- Be mindful of physical exertion and the amount of time you're spending outdoors. Shoveling snow is hard work, so don't overdo it!

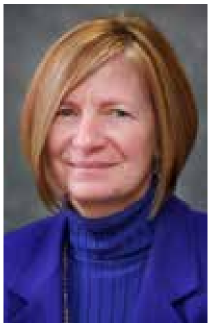
Winter is a lot of fun and we're looking forward to skiing, sledding and snowmobiling. So get your house, car and body ready and have a great season!

Contact Us!

At Valicenti Insurance Services, Inc., we can work with you to make sure you've got the coverage you need, while at the same time using all possible credits and discounts to make that coverage affordable. Just give us a call at 607-215-0242 or send us a note at info@valicentiins.com. We want to help you meet your goals and to make sure what's important to you is protected!

Suzanne M. Valicenti
President/CEO

New York Paid Family Leave



In 2016, Governor Cuomo signed into law the nation's strongest and most comprehensive Paid Family Leave policy. Working families will no longer have to choose between caring for their loved ones and risking their economic security.

Starting January 1, 2018, the New York State Paid Family Leave program provides wage replacement to employees to help them:

- To bond with a newborn, adopted or foster care child during the first 12 months after birth or placement,
- To care for a loved one with a serious health condition, or
- To assist loved ones when a family member is deployed abroad on active military duty.

Employees are also guaranteed to be able to return to their job and continue their health insurance. If you contribute to the cost of your health insurance, you must continue to pay your portion of the premium cost while on Paid Family Leave. (See chart below.)

Paid Family Leave is designed to phase in over four years, starting January 1, 2018.

Employees may take the maximum benefit length in any given 52-week period. The maximum benefit is eight weeks during the first year, 10 weeks during the second and third years and 12 weeks during the fourth and subsequent years. The 52-week clock starts on the first day the employee takes Paid Family Leave.

Each type of Paid Family Leave will require unique documentation and verification. Employers should contact their disability carrier about obtaining the coverage and employees should provide their employer 30 days advance notice of their intention to use Paid Family Leave. Employees will be required to submit a completed claim package to their employer's Paid Family Leave insurance carrier. A claim form will be available from an employer, the employer's Paid Family Leave insurance carrier or on the Paid Family Leave website. Employers are also responsible for providing insurers with the dates that employees use Paid Family Leave.

Now no one has to choose. We all hope we can care for our loved ones when they need us the most. The Paid Family Leave leverages the power of the law to ensure that no worker has to make the impossible choice between his/her job and his/her family. When all working parents and caregivers have a fair shot in the workplace, our families, our communities and our nation are healthier and stronger.

Evelyn L. Bristol
Business Services/Tax Specialist

	Employer	Employee
Eligibility	All covered employers with one or more employees working in New York State. Exempt employers may opt in to provide coverage	All NYS Employees. Full time: Must have worked with the same employer for at least 26 consecutive weeks within a rolling 52-week period. Part time: Must have worked with same employer for 175 days within a rolling 52-week period.
Contribution/ Premium	The contribution rate for 2018 is 0.126% of employee's weekly wage, PFL benefits are deducted by employer through employee payroll. • Employers may cover contribution, but are not required. • Employers have the option to begin early collection as of July 1, 2017.	Deduction of 0.126% of weekly wage through payroll. Capped at Statewide average weekly wage of $1305.92.
Benefit Details	• May not require employee to use PTO before using PFL. • Must continue to contribute to employee health care (employee must also continue contribution). • Must provide same or similar job upon return from leave.	• 30 day notification required (when applicable). • No waiting period, meaning benefits are payable on the first day of an eligible event.

Source: AmTrust North America

Tax Reform

(continued from Page 1)

The Tax Policy Center has come forth with some estimates such that the Unified Framework would increase the national debt by $7 trillion over the next 10 years. There still remains, however, much vagueness in the tax plan. Like Reagan's tax plan, this tax plan relies on supply-side economics, therein giving tax cuts to businesses to enable them to create jobs. The Reagan plan worked partly because the top tax rate was 70%. Tax rates today are half that and the effects of trickle-down economics will have a marginal benefit at best. It will be interesting to see what actually becomes tax law and the timing of it all.

Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

Dying Death Tax

The future of the federal estate tax otherwise known as the "death tax" remains in question. Currently, for amounts above the estate exclusion of $5.49 million, a tax rate of 40% is due – this on money you were taxed on throughout your life – for the privilege of dying. Whether the federal "death tax" survives tax reform is unknown, as Democrats demand its survival while Republicans require its funding source for other tax cuts.

The "death tax" has been dying at the state level as four states (North Carolina, Ohio, Tennessee and Indiana) have repealed estate taxes all together in the last five years following earlier repeals in Florida, Kansas and Oklahoma. Five states including New York, Rhode Island, Illinois, Washington and Maryland have reduced the burden of the estate by raising the amount excluded from taxation. This brings us to only fifteen states, mostly liberal run coastal elite jurisdictions, continuing with estate taxes and five states with inheritance taxes. Why has dependence on such taxation waned? Politicians began noticing that affluent tax payers were moving out of state to avoid these taxes. When someone moves to avoid estate taxes, the state is also deprived of his/her state income and sales taxes, while they are still alive, creating an incentive for tax reform.

I once worked with an older, very wealthy portfolio manager in New Jersey. He had domiciled himself in Florida, but continued to work in New Jersey and made sure that he never was outside of the state of Florida for more than 180 days per year to maintain his Sunshine State residency. We had a comical agreement, that if I were ever to find him dead at this desk, I was to load his body into my car, drive over the Pennsylvania border and drop his body off on the side of the road. That's how much he wanted to prevent New Jersey from even beginning an argument over his Florida domiciled estate. Don't worry his wife was in on the deal. Another very successful money manager, David Tepper, rocked New Jersey when he announced in 2014 that he was moving to the no income and estate tax Florida. Mr. Tepper was personally responsible for over 5% of the state's gross income tax receipts, forcing the government to restructure its budget. Ridiculous taxation in the "People's Republic of New Jersey" also turned me into a tax refugee moving over the border into Pennsylvania, as others in the middle class have done. All of this was clear enough that Governor Christie was forced to act and, beginning in 2018, liberal blue New Jersey's "death tax" will die a deserved death.

As Americans continue to vote with their feet, high tax states will come to recognize that the "death tax" is a dead end.

Louis F. Ruize
Director of Research/Portfolio Manager

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