



Investment Management Group

Attorney/CPA Corner Estate Planning Update

November/December 2018

Greetings

Northwest Bank's Investment Management Group would like to help you stay informed on the issues shaping your clients' financial and estate planning needs.

If we can be of any assistance please contact one of our estate and financial planning professionals. We look forward to working with you.

Grassley to lead Senate Finance

The retirement of Senator Orrin Hatch (R-Utah) creates a vacancy in the chairmanship of the Senate Finance Committee, which Senator Chuck Grassley (R-Iowa) has announced he will fill. Grassley has held this position before, and he is eligible to have it for two more years under the Republican rules on term limits for committee leadership posts.

Grassley's primary focus in the past has been on oversight, not new legislation, which he expects to continue. In his statement Grassley promised to use the chairmanship to "provide Americans with additional tax relief and tax fairness so they can spend more of their hard-earned money on what's important to them."

The new Chair of House Ways and Means is expected to be Rep. Richard Neal (D-Mass.). Said Neal, "Senator Grassley is a venerable legislator and tested leader who brings a wealth of experience and knowledge to the table as chairman. I hope that the senator and I will be able to work together to expand opportunity for American families."

Will charitable giving decline?

The Tax Cuts and Jobs Act did not impair the federal tax deduction for charitable giving directly, but other changes mean that far fewer taxpayers will be itemizing their deductions. According to a Brookings Tax Policy Center analysis:

- the number of taxpayers who will get a tax benefit from their charitable giving will fall from 36 million in 2017 to 15 million in 2018;
- the gross value of the federal charitable income tax deduction will fall from \$60 billion to \$40 billion;
- most of the change will occur among the middle- and upper-middle-class taxpayers. 53% of middle quintile taxpayers took a charitable deduction in 2017, and only 22% are projected to do so for 2018. For households between the 90th and 95th income percentiles, the share is projected to fall from 92% to 67%

From these projections, the report concludes that overall charitable giving will decline by 5% "relative to the situation if no tax changes had occurred." The report goes on to advocate for a new tax benefit for charitable gifts for those who do not itemize.

That careful wording should not be taken to mean that the amounts going to charity will decline in absolute dollars—no one can know what might have happened in the absence of TCJA. According to Giving USA, bequests to charity grew by 0.2% in 2017, notwithstanding the much larger federal estate tax exemption that eliminated the tax incentive for charitable bequests for over 95% of decedents' estates.

Amazon's "Opportunity Zone"

A portion of the site in Queens chosen by Amazon for a new headquarters operation will qualify as a federal "Opportunity Zone," according to an analysis by Tax Notes. This has the potential of reducing or eliminating capital gains taxes on real estate investments in the zone.

Some are wondering why a census tract in which the median income of \$130,000 is double that of Queens generally would be designated as an opportunity zone in the first place. Reportedly, the recommendation came from regional development councils, and Governor Andrew Cuomo nominated 514 census tracts in New York for this status. The final approval came from the IRS.

Technical corrections stall

Major tax legislation typically includes clerical errors, oversights, sections that were not fully understood by the draftsmen, and provisions that fail to implement the intention of Congress. Usually a "technical corrections" bill collects all of these problems and is enacted about a year later without controversy. House Ways and Means Chair Kevin Brady (R-Texas) reportedly has compiled a list of 70 to 80 technical corrections to last year's Tax Cuts and Jobs Act.

There may not be any movement on these corrections this year. Democrats in the House stated early on that they won't go along with a technical corrections bill unless hearings are held first. The purpose of such hearings would likely be to attack the substance of the tax reform itself. Said Rep. John Larson (D-Conn.) "We still think that there ought to be hearings. Nobody's opposed to fixing the tax bill, but you want to make sure we're fixing everything the right way." Committee member Bill Pascrell, Jr. (D-N.J.) added, "We certainly don't want to blow a bigger hole in the deficit," and he suggested that the SALT cap, middle-income tax cuts, and the 21% corporate tax rate need to be re-examined.

Technical corrections could pass the House without Democratic support, but the Senate outlook is dicier. Said Senate Finance Committee member Thomas R. Carper (D-Del.), "The idea of doing a technical corrections fix that large would seem, at first blush, to be a bridge too far."

\$11.6 billion for the IRS

Funding for the IRS became a political football in recent years following allegations of partisan bias in IRS enforcement. Those lawsuits have been settled in favor of affected taxpayers, but some members of Congress remain unhappy with the IRS.

Agency funding will be increased to \$11.6 billion under a House and Senate conference agreement. Lawmakers reportedly still are negotiating over how much funding would go into different IRS categories for updating computer technology, not the overall amount of funding for the agency.