CNBC

Trump, GOP push tax cut for the ultra-wealthy

- **The GOP proposal calls for killing what Republicans refer to as the "death tax."**
- **The wealthiest of the wealthy benefit the most in this new scenario, experts say.**

Jessica Dickler | @jdickler

Sept 27, 2017

Donald Trump rallied the working class, but he is also championing one benefit favoring only the super-rich: eliminating the federal estate tax.

One aspect of the president's new tax plan unveiled Wednesday — a joint product of the Trump administration and Republican leadership — calls for killing what Republicans refer to as the "death tax."

Under current rules, a taxpayer can pass up to $5.49 million to heirs tax-free. For married couples it's nearly $11 million. Above that amount, beneficiaries must pay a federal estate tax of 40 percent. (Currently, there are also 15 states and the District of Columbia that assess an estate tax, according to the Tax Foundation.)

Because of the sky-high threshold, only the wealthiest Americans now pay the federal levy. The Tax Policy Center estimated there were about 11,310 estate returns filed and about half of those were taxable. Still, the amount of tax collected on just those returns was just under $20 billion, the Tax Policy Center said.

Right now, estates are taxed upon the transfer of assets from one generation to the next. Although there are few specifics on the new plan, previous reforms have proposed taxing any capital gains on estates when, or if, the beneficiaries sell the assets they've inherited.

For example, "dad passes away and leave you shares of AT&T," said Travis Sollinger, a certified financial planner and director of financial planning of Fort Pitt Capital Group in Pittsburgh.

As it stands now, you inherit the shares on the date of his death and the share price on that date — say $40 — is your "step-up" basis. If you were to turn around and sell those shares, you wouldn't pay any capital gains taxes, he said.

With no estate tax, beneficiaries would instead pay capital gains taxes based on the original cost — the share price dad paid for his AT&T stock when he bought it decades ago, which could be as little as $2, according to Sollinger. (Check out the table below, assuming a 20 percent capital gains tax rate.)

Step up vs. no step up

	Sale price per share	Cost basis	Capital gain per share	Tax per share
Step up	$40	$40	$0	$0
No step up	$40	$2	$38	$7.6

Source: CNBC

Although it's a trade-off, there's a benefit for the wealthiest of the wealthy in this new scenario, Sollinger said.

"If I am well off myself and I'm not forced to sell [the assets I've inherited] then I can delay paying that tax until it's an opportune time to do so. It's the people who are less well off that are going to end up paying that tax," he said.

"This is going to be a boon to rich people" -David First, co-partner-in-charge of the trusts & estates practice at Marcum LLP

"This is going to be a boon to rich people," said David First, a CPA and co-partner-in-charge of the trusts & estates practice at accounting firm Marcum LLP. "All the billionaires are going to save billions of dollars."

However, any tax code changes could just as easily be undone in the next election cycle, First said. He advises clients to plan as they would before, including setting up trusts and maximizing tax-exempt gifts. "It can't hurt," he said.

And, despite the unity around the framework, which was posted online, Republicans still face plenty of roadblocks on the road to reform.

The estate tax, alone, has been a roller coaster since first imposed in 1917, when 10 percent was levied on portions of an estate exceeding $5 million. At its peak in the 1940s it charged 77 percent on portions over $10 million, then 70 percent for amounts over $5 million from 1976 to 1982.