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FROM ANDY FRIEDMAN

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# 2015 Budget Compromise

- Funds the federal government through September 2016.
- Increases defense and domestic spending by \$40 billion each (\$80B total).
- Repeals prohibition on exports of domestically produced crude oil.

## 2015 Budget – Individual Tax

- Makes permanent IRA / charitable contribution provision for account holders over age 70-1/2.
- Expands 529 plan qualifying distributions to include student computers and technology.
- *Loophole closer*: Eliminates popular Social Security planning strategy known as “file and suspend”.

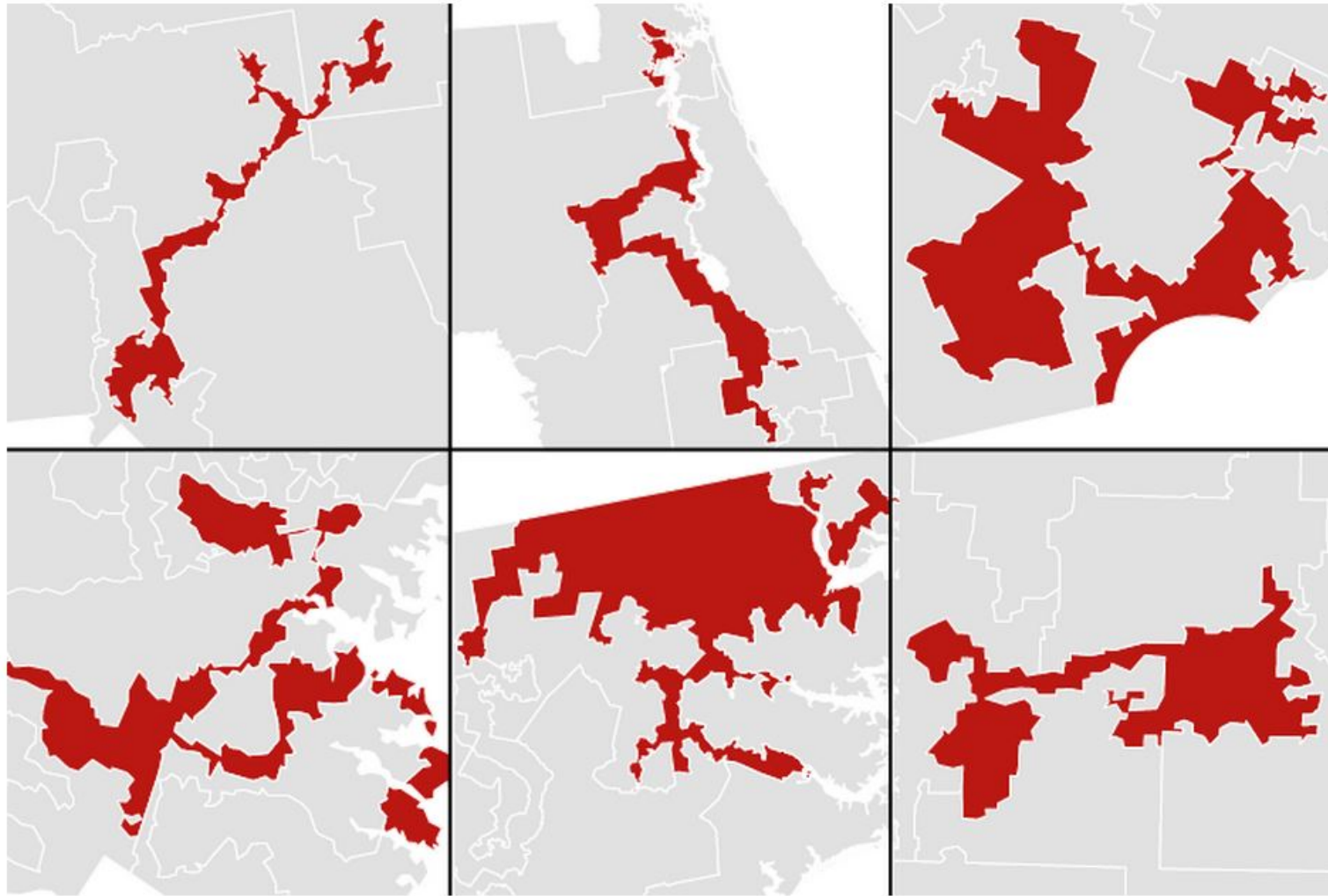
# 2015 Budget – Business Tax

- Makes permanent tax credit for research and development expenditures.
- Makes permanent enhanced write-off of small business capital expenses under section 179.
- Extends and phases out of bonus depreciation through 2019

# 2016 Elections – House Redistricting

- State legislatures reset House districts in wake of 2010 census.
  - Republicans controlled most state legislatures after 2010 election.
- Most House incumbents worry more about primaries than general election. *Primary reason for polarization in Washington.*

# 2016 Elections – House Redistricting



# 2016 Elections – House

- Democrats need to pick up 30 seats for majority.
- Only 12 races are considered toss ups.

Source: *The Rothenberg & Gonzales Political Report*



## 2016 Elections – Senate

- Democrats must gain four (if hold White House) or five (if not) for to claim majority.

- Up for election:

<i>Seats held by</i>	<i>2014</i>	<i>2016</i>
Democrats	21	10
Republicans	14	24

- Five incumbent Republicans are running from states won by Obama in 2012.

## 2016 Elections – Senate

- Good chance of Democratic pick-ups: 6  
(Florida, New Hampshire, Illinois, Ohio, Pennsylvania, Wisconsin)
- Good chance of Republican pick-up: 1  
(Nevada)
- Possible Republican pick-up: 1  
(Colorado)

*But candidate at top of ticket is key.*

Source: *Cook Political Report*

# 2016 Elections – Party Affiliation

	2012	2016
Democrat:	31%	29%
Republican:	28%	26%
Independent:	40%	42%
(Uncertain:	1%	3%)

*Key to election is how the Independents vote.*

Source: Gallop (January 11, 2016)

# 2016 Elections – Demographics

Electorate	2012	2016
White	72%	69%
Non-white	28%	31%

Republican percent	2012	2016 (1)	2016 (2)
Caucasian	59%	59%	65%
Minority	17%	30%	17%

Source: *Whit Ayres, 2016 and Beyond: How Republicans Can Elect a President in the New America (2015)*

# 2016 Elections – Electoral College

***Needed to win: 270***

	Democrat	Republican
Solid	223	191
Lean	26*	0
Total	249	191
Shortfall	21	79

***In play: 98***

*\*Iowa, Pennsylvania*

Source: *The Rothenberg & Gonzales Political Report*

# 2016 Elections – Electoral College

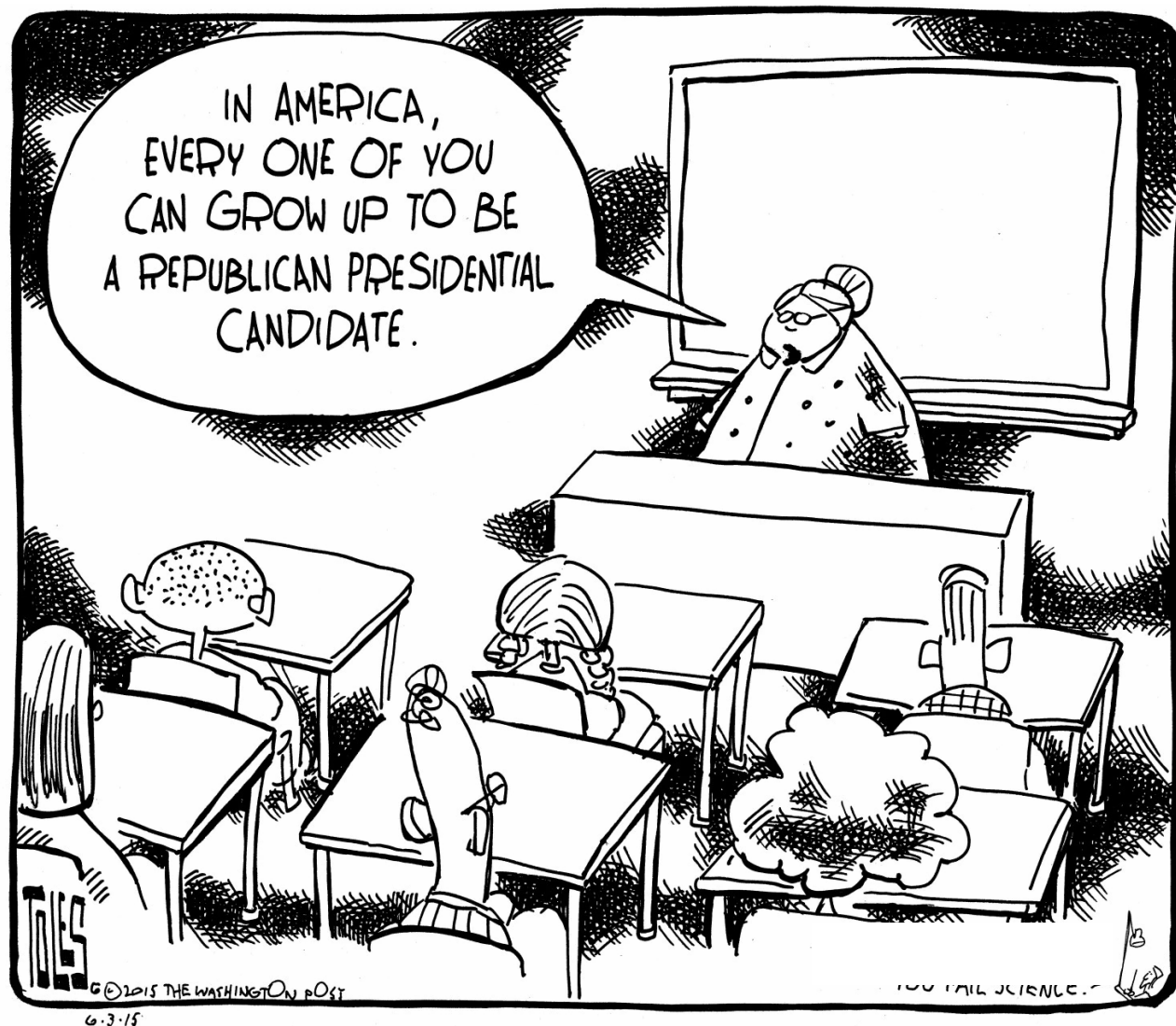
*Needed for Republican win: 79*

<i>Colorado</i>	9
<i>Florida</i>	29
New Hampshire	4 (tilt D)
<i>North Carolina</i>	15 ( <i>tilt R</i> )
<i>Ohio</i>	18
<i>Virginia</i>	13
Wisconsin	10 (tilt D)

*Total italicized states: 84*

Source: *The Rothenberg & Gonzales Political Report*

2016



*Washington Post (June 2015)*

# 2016 Elections – Republican Split: Conservatives vs. Moderates

- *Moderate / Establishment wing*: Willing to compromise to pass legislation with bipartisan support if necessary.
- *Conservative / Tea Party wing*: Unwilling to compromise core beliefs, even if it means blocking legislation or passing legislation to be vetoed.



# Republican Candidates

- *Other:* Trump / Carson / ~~Fiorina~~
- *Senators:* Rubio / Cruz / ~~Paul~~
- *Governors:* ~~Bush / Christie~~ / Kasich

# 2016 Elections – Market Movers

- Continued market slide could hurt Democrats
- Market volatility possibly enhanced if:
  - Appears Trump will get nomination
  - Clinton moves too far left

# 2016

“[With Mitt Romney,] we tried tall, good looking, smart, nice, great family. We’re not going down that road again!”

Senator Lindsey Graham (R-SC)

June 2015

# 2017 Legislative Agenda – Income Inequality

- Middle class is no longer the nation's majority.
- *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.

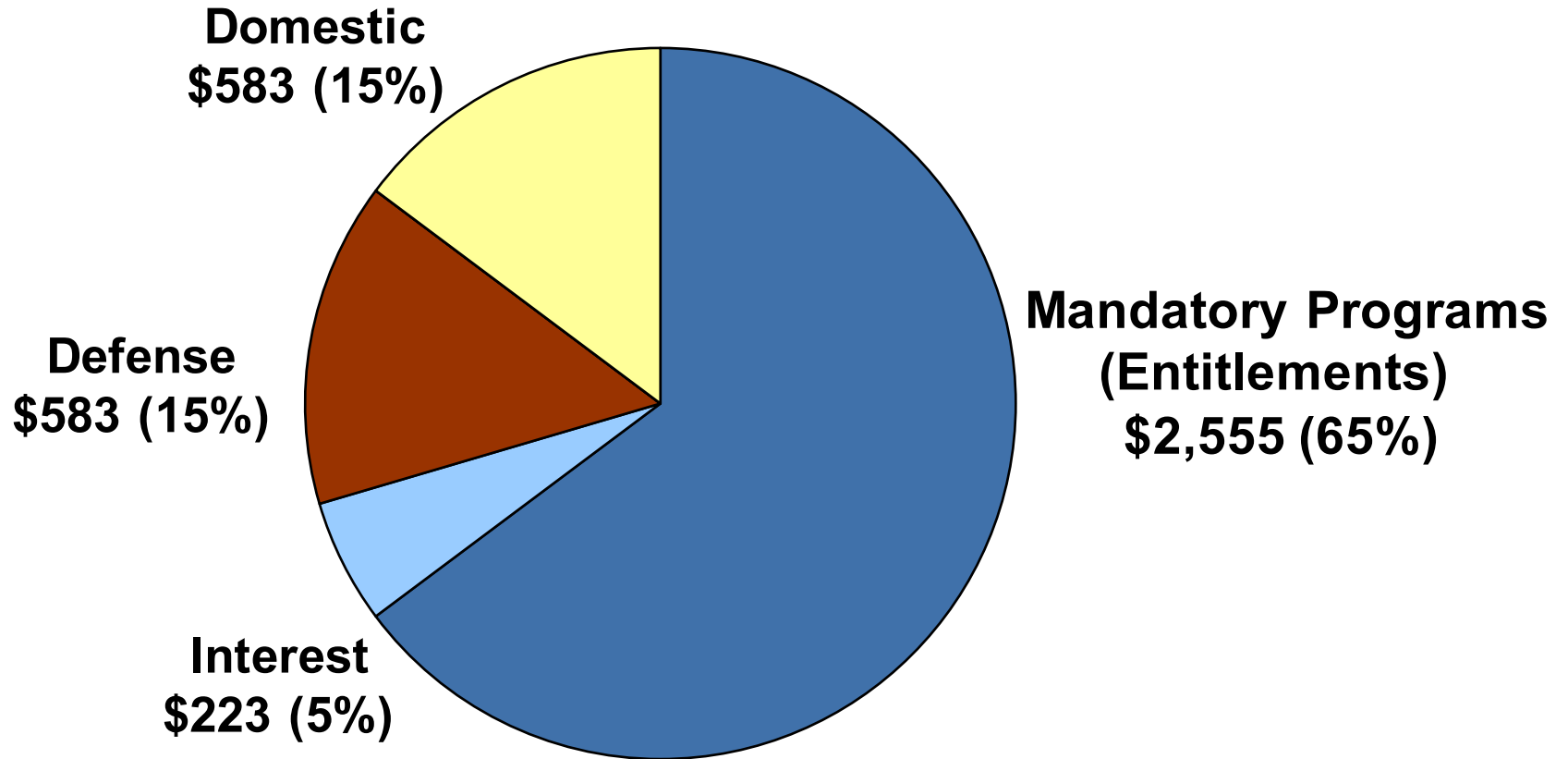
Source: *The American Middle Class Is Losing Ground*, Pew Research Center (December 2015)

# 2017 Legislative Agenda – Tax Reform

- Revenue neutral or generate new revenue
- Cannot favor the wealthy, who benefit from reduction in tax rates
- Must eliminate or cap some “sacred” deductions and exemptions to recoup revenue
- Difficult to address corporate tax reform alone given that business income earned by pass-through entities is taxed at individual rates.

# 2017 Legislative Agenda – Entitlements

*2015 Federal Spending (\$3.9T) (in billions of dollars)*



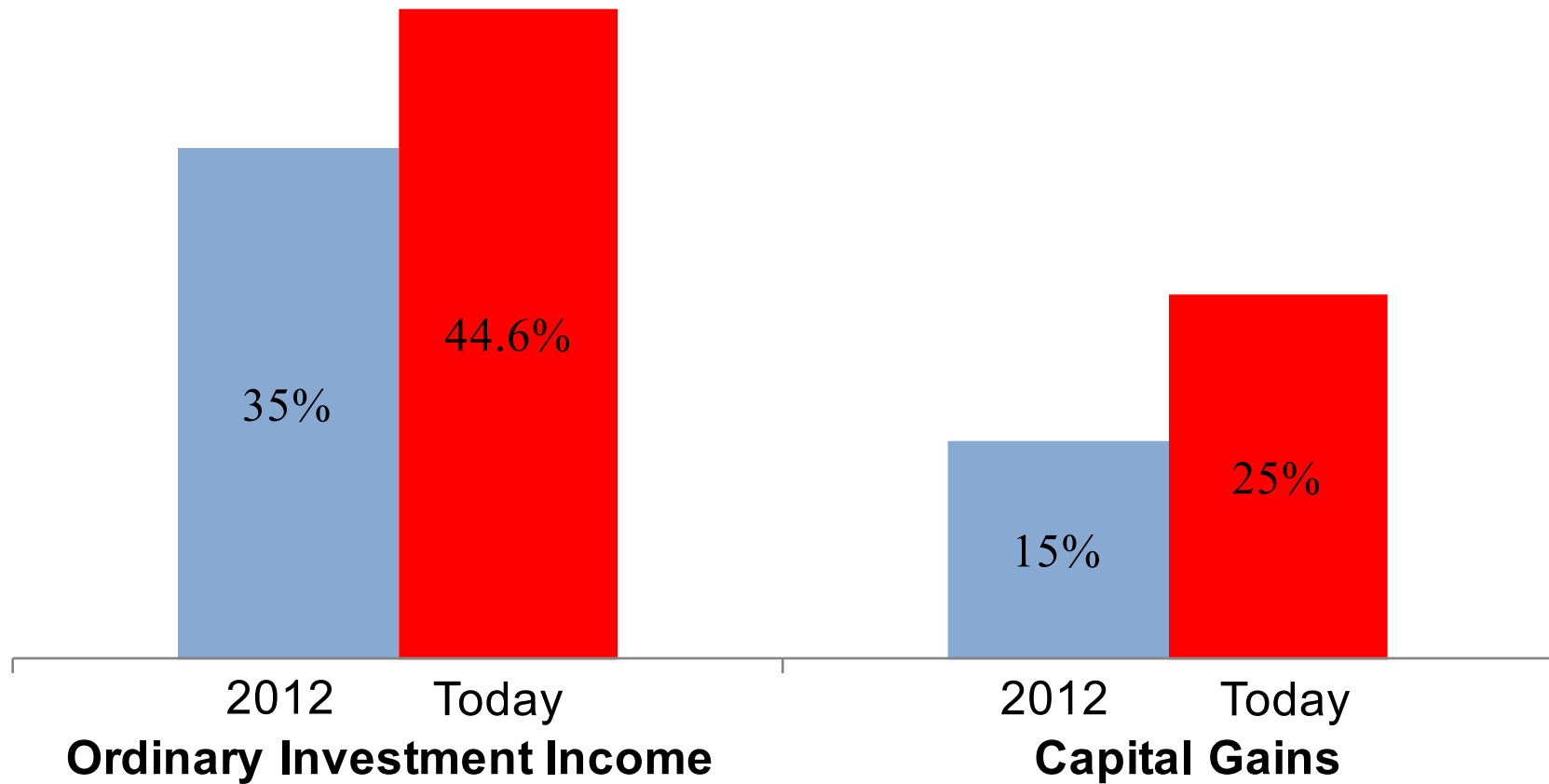
Source: *The Budget and Economic Outlook: Fiscal Years 2016 to 2026, Congressional Budget Office (Jan 2016)*

# Fiscal Outlook (CBO)

- Deficits will begin to rise in 2016.
- Interest payments will double by 2019.
- Spending will grow faster than the economy for Social Security; the major health care programs, including Medicare, Medicaid, and ACA subsidies; and net interest costs.
- By the end of 2016, debt held by the public will be 76% of GDP, “higher than it has been since the years immediately following World War II.”

Source: *The Budget and Economic Outlook: Fiscal Years 2016 to 2026*, Congressional Budget Office (Jan 2016)

# Maximum Tax Rate – Investment Income





# Tax Rates

“[Current tax] rates are well above the average rates [during the past 35 years] for households in the top of the income distribution.”

Congressional Budget Office Report  
November 2014

# Potential “Loophole Closers”

- Tax sale of carried interest as ordinary income
- Curtail “stretch” IRAs and 401k’s
- Limit Roth conversions to pre-tax dollars
- Apply RMD rules to Roth accounts beginning age 70-1/2
- Treat all distributions from S corps and partnerships to owner-employees as subject to employment taxes.
- Curtail sophisticated wealth transfer techniques

# Investment Planning

- Give increased attention to “tax drag” on investments.
  - Harvesting losses
  - Buy-and-hold strategies
  - Municipal bonds, master limited partnerships, REITs
  - Tax-efficient mutual funds
  - Other professionally managed tax-advantaged strategies
  - Hold tax-inefficient investments inside tax deferral vehicles

# DOL Fiduciary Rule

Today, [I am] taking a step to crack down on those Wall Street brokers who benefit from backdoor payments or hidden fees and don't put the best interest of working and middle class families first.”

President Obama, in a speech at AARP Headquarters  
(February 2015)

# DOL Fiduciary Rule – Animating Beliefs

- Differing financial adviser compensation creates a conflict of interest that puts clients in retirement investments with “high costs and low returns.”
- IRA holders are better off purchasing investments at the lowest fees possible. Institutional pricing is preferred over retail pricing.

# DOL Fiduciary Rule – General Rule

- Applies to IRA accounts.
- Differential compensation for IRA investments would be flatly prohibited, unless an exemption applies.
  - Adviser may receive a single fee-based charge (typically a fixed percent of asset values) for client's IRA holdings.
  - Eliminates commissions, revenue sharing fees, and 12b-1 fees, among other forms of compensation.
- Bias toward institutional pricing would make 401k rollovers from larger plans difficult, further depriving investors of advice.

# DOL Fiduciary Rule – “BIC Exemption”

- Client and adviser must enter into detailed contract *before* any advice is provided.
  - “Advice” occurs when the adviser discusses any particular investment or security, regardless of location or context.
- Broker-dealer must limit available IRA investments to those appropriate for IRAs. Illiquid products are not permitted.

# DOL Fiduciary Rule – “BIC Exemption”

- Broker-dealer must prohibit compensation practices -- *including differential compensation* -- that encourage advisers to make recommendations not in best interests of the IRA holder.
  - Differential compensation may be permitted if specialized expertise or greater time required for product sale justifies higher fee.
- Client retains non-waivable right to later bring class action suit.



# DOL Fiduciary Rule – Prognosis

- Obama Administration - regulations
- Congress - funding legislation
- Courts - injunction

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