Washington Update

Politics, Policy, and the

2016 Presidential Campaign

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CAMPAIGN SEASON – THE ELECTIONS

- Presidential Campaign
  - Electoral Map
- Senate Campaigns
  - Current Senate – 54 Republicans – 46 Democrats (includes Sanders (I-VT) and King (I-ME))
- House Campaigns
  - Current House -- 247 Republicans – 186 Democrats – 2 vacancies
- Gubernatorial Races
  - 12 States: Delaware, Indiana, Missouri, Montana, N. Hampshire, N. Carolina, N. Dakota, Oregon (special election), Utah, Vermont, Washington

LAME DUCK SESSION

- The 114th Congress – what is left on the agenda and the calendar

- Questions
Electoral Map as of 10/10/2016

*Note: The other congressional district electoral votes in Maine and Nebraska are rated as follows -- ME-1 is Safe Democratic and both NE-1 and NE-3 are Safe Republican.
The Presidential Race

• **Issues Beyond Taxation**
  - Immigration
  - Environment
  - National Security
  - Trade
  - Many Others

• **Current Polling Numbers**
  - Third Party Candidates – influence outcome?

• **Down Ballot exposure**
  - Senate Races
  - House Races
  - Governor’s Races

• **November 8**
  - Can’t come soon enough!!
The Senate Races

- **Current Composition of the Senate**:
  - 54 Republicans Members
  - 44 Democratic Members
  - 2 Independent Members

- **2016 Election**
  - 24 Republican Members up for re-election
    - 2 retirements – Coats (R-IN) and Vitter (R-LA)
  - 10 Democratic Members up for re-election (or retiring)
    - 3 retirements – Boxer (D-CA); Mikulski (D-MD); Reid (D-NV)

- **States to Watch**
  - Florida (R); Illinois (R); Indiana (R); Missouri (R); Ohio (R); Pennsylvania (R); Nevada (D); New Hampshire (R); North Carolina (R); Wisconsin (R)

- **Looking Ahead to 2018** – 25 Democratic Senators are up for election, versus 8 Republican Senators
The Senate Races

US Senate Reelection Rates, 1964-2010

Election Cycle

0% 20% 40% 60% 80% 100%

'64 '66 '68 '70 '72 '74 '76 '78 '80 '82 '84 '86 '88 '90 '92 '94 '96 '98 '00 '02 '04 '06 '08 '10
Current Composition of the House:
- 247 Republicans Members
- 186 Democratic Members
- 2 Vacancies

2016 Election
- All House seats are up for re-election or election (in case of open seat)
- As of 8/1/16:
  - 28 Republican Members either are retiring or seeking other office
  - 17 Democratic Members either are retiring, seeking other office, or have resigned/passed away

Democrats need a net pickup of 30 seats to retake control of the House

Incumbents – natural advantages
- Return rate over past 40 years (1964-2014) -- 92.96%
The House Races

US House Reelection Rates, 1964-2010

Election Cycle

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0% 20% 40% 60% 80% 100%
2016 Governor’s Races
as of 9/17/2016
The 114th Congress
What Remains?

- **Funding for Federal Government Programs and Operations:**
  - October 1 – beginning of FY 2017 – funding necessary to avoid government shutdown
  - Congressional options:
    - Finish the Appropriations process for all 12 Appropriations bills by 9/30
    - Pass a Continuing Resolution (CR) to fund the federal government into a date in the future
      - Short-term would last through mid-December – to allow for the Appropriations process to finish
      - Long-term would likely either last through all of the FY year (until Sept. 30, 2017) or well into 2017

- **Expired/expiring tax provisions –**
  - Energy credits – nonbusiness energy property; qualified fuel motor vehicles; two-wheeled plug-in electric vehicles; biodiesel/renewable biodiesel; PTC - non-wind renewable power facilities; new energy efficient homes; geothermal heat pump property; etc.
  - Discharge of indebtedness on principal residence excluded from gross income
  - Premiums for mortgage insurance deductible as interest that is qualified residence interest
  - Deduction for qualified tuition and related expenses
  - Medical expense Deduction – AGI floor for individuals 65 and older --- 7.5%
  - Special expensing rules for certain film, TV, and live theater productions
  - Three-year depreciation for race horses two years old or younger
  - 7 year recovery period for motorsports entertainment complexes

- **Debt Ceiling Limit** – temporary extension of Public Debt limit – expires on March 16, 2017
Tax Reform Plans
Presidential Candidates

Secretary of State Clinton (D-NY)

**Individuals:**
- Impose a 4% “fair share surcharge” on taxpayers with AGI of $5 million or more (single/joint filers)
- Impose a minimum tax of 30% on individuals earning over $1 million (fully phased-in at $2 million)
- Limit the value of itemized deductions to 28%
- Tax realized capital gains in following manner:
  - Asset held less than two years – ordinary rates (39.6% + 3.8% net investment income surtax)
  - Years 2 -6 - rate reduced roughly 4 percentage points each year
  - Assets held more than 6 years – rate of 23.8% (20% + 3.8% net investment income surtax)
- Prohibit additional contributions to a qualified retirement plan once taxpayer reaches the max. permitted accumulation amount for all retirement accounts (in 2016 -- $3.4 million for an individual age 62).
- Impose a tax at rates varying from 45% - 65% on certain estates (ranging from $3.5m to $500m); eliminate step-up in basis on inherited assets. Return gift and generation skipping taxes to 2009 levels

**Businesses:**
- Levy an “exit tax” on certain multinational companies that leave the U.S. (inversion)
- Impose a financial transactions tax – on high frequency traders
- Impose a “risk fee” on largest financial institutions
- Eliminate tax incentives for fossil fuels
- Provide tax credits for businesses that invest in community development and infrastructure
- Provide tax credits for businesses that share profits with employees
- Tax carried interest as ordinary income
Tax Reform Plans
2016 Presidential Candidates

Mr. Donald Trump (NY)
(As of 8/9/16)

**Individuals:**

- Create 3 tax brackets – 12%, 25%, 33%
- Increase standard deduction to $25k for single filers; $50k for joint filers (and index thereafter)
- Tax capital gains and dividends at maximum rate of 20%
- Repeal the AMT, the Estate Tax, the 3.8% net investment tax, and the .9% Medicare surtax
- Limit the value of itemized deductions (other than charitable contributions and mortgage interest)

**Businesses:**

- Reduce corporate tax rate to 15% and repeal the corporate AMT
- Impose a top tax rate on pass-through entities of 15%
- Tax carried interest as ordinary income
- Eliminate most business tax subsidies
- Impose one time deemed repatriation tax of 10% on all deferred overseas earnings (payable over 10 years)
- End deferral of foreign earnings of U.S. companies (thus subjecting such earnings to tax each year in which profits are earned)
Individuals:

- Consolidate 7 income tax brackets to: 12% - 25% - 33%
- Repeal AMT; repeal estate and generation skipping transfer taxes
- Capital Gains/dividends – allow taxpayers to deduct 50% of their net cap. Gains, dividends, and interest income
  - Leads to basic rates of 6%; 12.5%; 16.5%
- Consolidate standard deductions/exemptions into:
  - Larger Standard Deduction ($24k - joint filers; $18k – single filers with child in the household; $12k for other single filers)
  - Consolidate child credit and personal exemptions for dependents into increased child credit of $1,500 (first $1,000)
  - Continue the Earned Income Tax Credit
- Eliminate all itemized deductions except: mortgage interest deduction and charitable contribution deduction
- Streamline education tax benefits
- Continue tax benefits for retirement savings
  - Work to consolidate/reform the multiple retirement savings provisions in the Code
  - Explore creation of more general savings vehicles – with access by consumers at anytime penalty free
Businesses:
- Limit tax rate applicable to sole proprietorship and pass through income to the 25% bracket
- Lower the corporate tax rate to 20%; repeal the corporate AMT
- Allow full and immediate expensing of tangible property and intangible assets
- Allow deduction for interest expense against any interest income
  - But – no current deduction for net interest expense – can carry forward for use in future years
  - Develop special rules (unspecified) for financial services firms
- Net Operating Losses – carry forward indefinitely (increased by interest factor to compensate for inflation)
  - Carrybacks – not permitted
  - Deduction allowed with respect to an NOL carryforward – limited to 90% of net taxable amount for such year
- Preserve LIFO
- Generally – eliminate special-interest deductions/credits (in favor of the 20% rate)
  - But – retain R&D tax credit – similar to current law

International:
- Move to a territorial tax system; impose transition tax on unrepatriated overseas earnings
- Allow for border adjustments (exempt exports/tax imports)
  - Products/services and intangibles – exported – not be subject to U.S. tax regardless of where produced
  - Products/services and intangibles – imported into U.S. – subject to U.S. tax regardless of where produced
Other Possible Tax Reform Items

Other Ideas floating around Washington (a sampling):

- **Fair Tax**
  - National Sales Tax – 23% (after necessities)
- **Business Transfer Tax**
- **Simple Flat Tax**
- **Financial Transactions Tax variations** (e.g., 3 bps charge for most all transactions)
- **Financial Crisis Responsibility Fee** (apply to banks designated as SIFI’s)
- **International Tax Abuse Avoidance** (tax havens)
- **Corporate jet depreciation**
- **Carbon Tax**
- **Value-Added Tax/Consumption Tax**
- **Universal Savings Accounts**
2016 Annual Reports:

- Social Security and Medicare – comprise 41% of Federal program expenditures in FY 2014

- Key Dates for the OASI, DI, and Medicare HI trust funds:
  - Disability (DI) Trust Fund – expected depletion date – 2022 (Bipartisan Budget Act of 2015 – reallocated a portion of the payroll tax from the OASI program to the DI Trust Fund)
    - Upon depletion – income to the program from taxes will only cover 89% of scheduled benefits
  - OASI Trust Fund – expected depletion date – 2035
    - Upon depletion – income to the program from taxes will only cover 79 of scheduled benefits
  - Hospital Insurance (HI) Trust Fund – expected depletion date – 2028
    - Upon depletion – scheduled HI tax and premium income will be sufficient to only pay 87% of estimated HI costs (goes to 79% by 2040)

Remember – current law precludes payment of any benefits beyond annual income to the system and trust fund reserves. Once the trust funds are depleted, annual income will be all that is available, absent a legislative change before depletion, to pay scheduled benefits.
The importance of elections:

THE UNITED STATES SUPREME COURT

- Chief Justice John Roberts – age 61
- Justice Samuel Alito – age 66
- Justice Stephen Breyer – age 77
- Justice Ruth Bader Ginsburg – age 83
- Justice Elena Kagan – age 56
- Justice Anthony Kennedy – age 80
- Justice Sonia Sotomayor – age 62
- Justice Clarence Thomas – age 68

- 1 vacancy
Disclosures

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