

From the Hill to the Street:

An insider's perspective



**Eaton Vance Investment Managers
From the Hill to the Street
An Insiders Perspective**

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Trump's Plan

- Increase economic growth through:
 - Lower taxes
 - Less government regulation of businesses
 - Protect U.S. businesses and workers

Trump's Power

- Republican Congress
- Reverse Obama executive orders
- Check on Trump power: Senate filibuster rules
 - Avoid through use of reconciliation procedure

Tax Reform - Enactment Process

- Senate able to use reconciliation procedure to pass tax bill with 51 votes as long as:
 - Bill does not lose more than \$1.5T in revenue over 10 years
 - Bill does not lose any government revenue after 10 years.
- Had to eliminate or cap popular deductions to recoup some of the revenue lost from reduced tax rates.
- Tax reform has winners and losers.
- Effective date: January 1, 2018

Tax Reform - Individual

- Top ordinary income tax rate reduced from 39.6% to 37% for joint incomes > \$600K (rather than \$470K). All lower rates expire after 2025.
 - Inflation index changed to “chained CPI”, resulting in greater “bracket creep”.
- No change to 20% maximum dividend / capital gains tax rate or to ACA 3.8% surtax on investment income.
 - FIFO treatment for security sales not required.

Tax Reform - Individual

- Individual AMT: Exemption amount is increased from \$84,500 to \$109,400 (joint returns).
 - Beginning of exemption phase-out increased from \$160,000 to \$1,000,000 (joint returns).
 - Change is effective only through 2025.
- Wealth transfer: Unified lifetime estate / gift exclusion doubled to \$11.2M through 2025.
 - No change to stepped-up basis.

Tax Reform - Individual

- Doubles standard deduction to \$24K (\$12K for single filers).
 - Possible adverse effect on charitable donations and real estate values.
- Repeals limitation on itemized deductions claimed by high income taxpayers (Pease limit).
- Child Tax Credit increased to \$2,000 per child, \$1,400 Refundable.
- State and local taxes: Individuals may deduct state and local taxes only up to \$10K annually.
 - Businesses may continue to deduct state and local taxes.

Tax Reform - Individual

- Mortgage interest:
 - Reduces cap on mortgage loans for which interest is deductible from \$1M to \$750K. Existing indebtedness grandfathered.
 - Eliminates deduction for interest on home equity loans, including existing indebtedness.
- Charitable contributions: Increases percentage of current year income from which contributions may be deducted from 50% to 60%.

Tax Reform - Individual

- Medical expenses: Reduces income threshold from 10% to 7.5% through 2019.
- Casualty losses: Repeals deduction for most casualty losses.
- Miscellaneous itemized deductions: Repeals miscellaneous itemized deductions, including deduction for investment fees and expenses.
 - Differing treatment for mutual fund and SMA expenses.

Tax Reform - Individual

- 529 plans: Allows tax-favored distributions for elementary and secondary school expenses up to \$10,000 per student annually.
- Retirement plans: No significant changes.
 - Repeals ability to recharacterize Roth IRA conversion back to traditional IRA. Can still recharacterize a non-conversion contribution to traditional or Roth IRA before the return due date.
- Alimony payments: Repeals deduction for alimony payments.

Updated Tax Bracket - 2018

Tax Rates	Single Filer Tax Brackets	Married Filing Jointly Tax Brackets	Married Filing Separately Tax Brackets	Head of Household Tax Brackets
10%	\$0-\$9,525	\$0-\$19,050	\$0-\$9,525	\$0-\$13,600
12%	\$9,525-\$38,700	\$19,050-\$77,400	\$9,525-\$38,700	\$13,600-\$51,800
22%	\$38,700-\$82,500	\$77,400-\$165,000	\$38,700-\$82,500	\$51,800-\$82,500
24%	\$82,500-\$157,500	\$165,000-\$315,000	\$82,500-\$157,500	\$82,500-\$157,500
32%	\$157,500-\$200,000	\$315,000-\$400,000	\$157,500-\$200,000	\$157,500-\$200,000
35%	\$200,000-\$500,000	\$400,000-\$600,000	\$200,000-\$300,000	\$200,000-\$500,000
37%	\$500,000+	\$600,000+	\$300,000+	\$500,000+

Updated Tax Bracket – 2018 – Comparison

Single Taxpayers			
2018 Tax Rates - Standard Deduction \$12,000		2017 Tax Rates - Standard Deduction \$6,350	
10%	0 to \$9,525	10%	0 to \$9,325
12%	\$9,525 to \$38,700	15%	\$9,325 to \$37,950
22%	\$38,700 to \$82,500	25%	\$37,950 to \$91,900
24%	\$82,500 to \$157,500	28%	\$91,900 to \$191,650
32%	\$157,500 to \$200,000	33%	\$191,650 to \$416,700
35%	\$200,000 to \$500,000	35%	\$416,700 to \$418,400
37%	Over \$500,000	39.60%	Over \$418,400

Updated Tax Bracket – 2018 – Comparison

Married Filing Jointly & Surviving Spouses			
2018 Tax Rates - Standard Deduction \$24,000		2017 Tax Rates - Standard Deduction \$12,700	
10%	0 to \$19,050	10%	0 to \$18,650
12%	\$19,050 to \$77,400	15%	\$18,650 to \$75,900
22%	\$77,400 to \$165,000	25%	\$75,900 to \$153,100
24%	\$165,000 to \$315,000	28%	\$153,100 to \$233,350
32%	\$315,000 to \$400,000	33%	\$233,350 to \$416,700
35%	\$400,000 to \$600,000	35%	\$416,700 to \$470,700
37%	Over \$600,000	39.60%	Over \$470,700

Tax Reform – Business Income

- Reduces tax rate on C corporations from 35% to 21%.
 - Eliminates corporate AMT.
 - Lower tax rate has no expiration.

Tax Reform – Pass-through Entities

- Owners of non-service business may deduct 20% of business income. Deduction available through 2025.
 - Deduction permitted for owner of service business only if owner's joint taxable income < \$315K, phasing out through \$415K.
 - Personal service businesses includes financial, brokerage, health, law, accounting, actuarial, or consulting services, but not engineering and architecture.
 - Effective top tax rate for eligible pass-through income of 29.6%.

Tax Reform – Pass-through Entities (cont'd)

- Deduction cannot exceed greater of (i) 50% of owner's share of wages paid by entity, or (ii) sum of 25% of owner's share of wages paid plus 2.5% of the initial basis of depreciable tangible property used by the business.
 - Limit does not apply if owner's joint taxable income < \$315K, phasing out through \$415K.
- Re-evaluate small 401(k) plans. Consider Roth option.
- MLPs treated as partnerships might claim deduction.

Tax Reform - Business

- Businesses may claim immediate deduction of capital expenditures made through 2022.
 - Immediate deduction is phased out over four years after 2022.
- Small businesses may expense to \$1 million. Expense deduction phases out beginning at \$2.5 million.

Tax Reform - Business

- Businesses may not deduct net interest expense exceeding 30% of income.
 - Exemption for real estate and businesses with receipts < \$25M.
- Eliminates deduction for business entertainment expenses.
- Eliminates net operating loss carrybacks. Loss carryforwards may offset only up to 80% of taxable income in any given year.
- Curtail special tax provisions for insurance companies.

Tax Reduction - International

- Eliminates tax on repatriated future earnings.
- Deemed repatriation of existing overseas earnings, with cash taxed at 15.5% and illiquid assets at 8%, payable over 8 years.
- Curtails “base erosion” arrangements where U.S. business holds intangible asset in tax haven jurisdiction and claims U.S. tax deduction for payments made for asset’s use.

Tax Reform – Revenue Effects (\$billion)

Individual		Business	
Tax rate reduction	(\$1,214.2)	Rate reduction	(\$1,388.8)
Repeal AMT	(\$637.1)	25% pass through	(\$414.5)
Estate tax	(\$83.0)	International	\$324.4
Revenue raisers	\$1,222.2	Revenue raisers	\$735.0
Total individual	(\$712.1)	Total business	(\$743.9)

Total revenue loss: (\$1,456.0)

Tax Reform

Individual

Winners

AMT payers

Large estates

Nonservice pass-through

Losers

High W-2 earners
(perhaps a small benefit)

Large mortgages
High state taxes

Personal service
Pass-through

Business

Winners

Retail

Capital-intensive
businesses

U.S.-based
multinational
businesses

Losers

Technology/
pharmaceutical

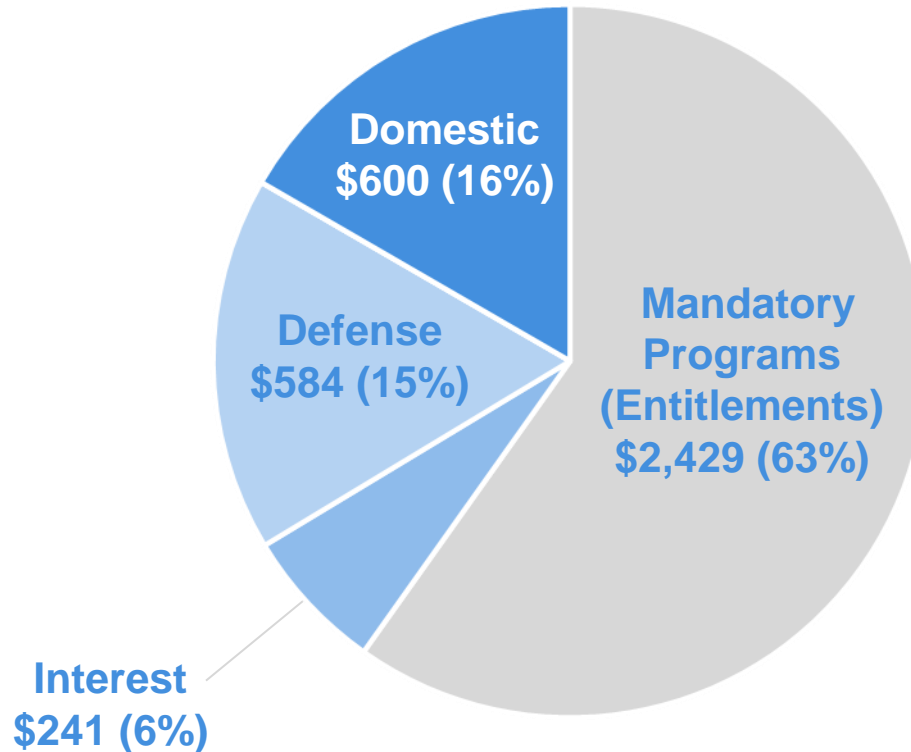
Builders/mortgage
/real estate

Insurance
companies

Fiscal Realities

2016 Federal Spending (\$3.9T)

(in billions of dollars)



Disclosure

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Before investing, prospective investors should consider carefully a Fund's investment objectives, risks, charges, and expenses. A Fund's current prospectus and summary prospectus, contains this and other information about a Fund and is available through your financial advisor. Read the prospectus carefully before investing or sending money.

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Thank you.

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