Trump's tax plan could be big win for RIAs

Capping pass-through entity taxes at 15% would help advisers and many of their clients

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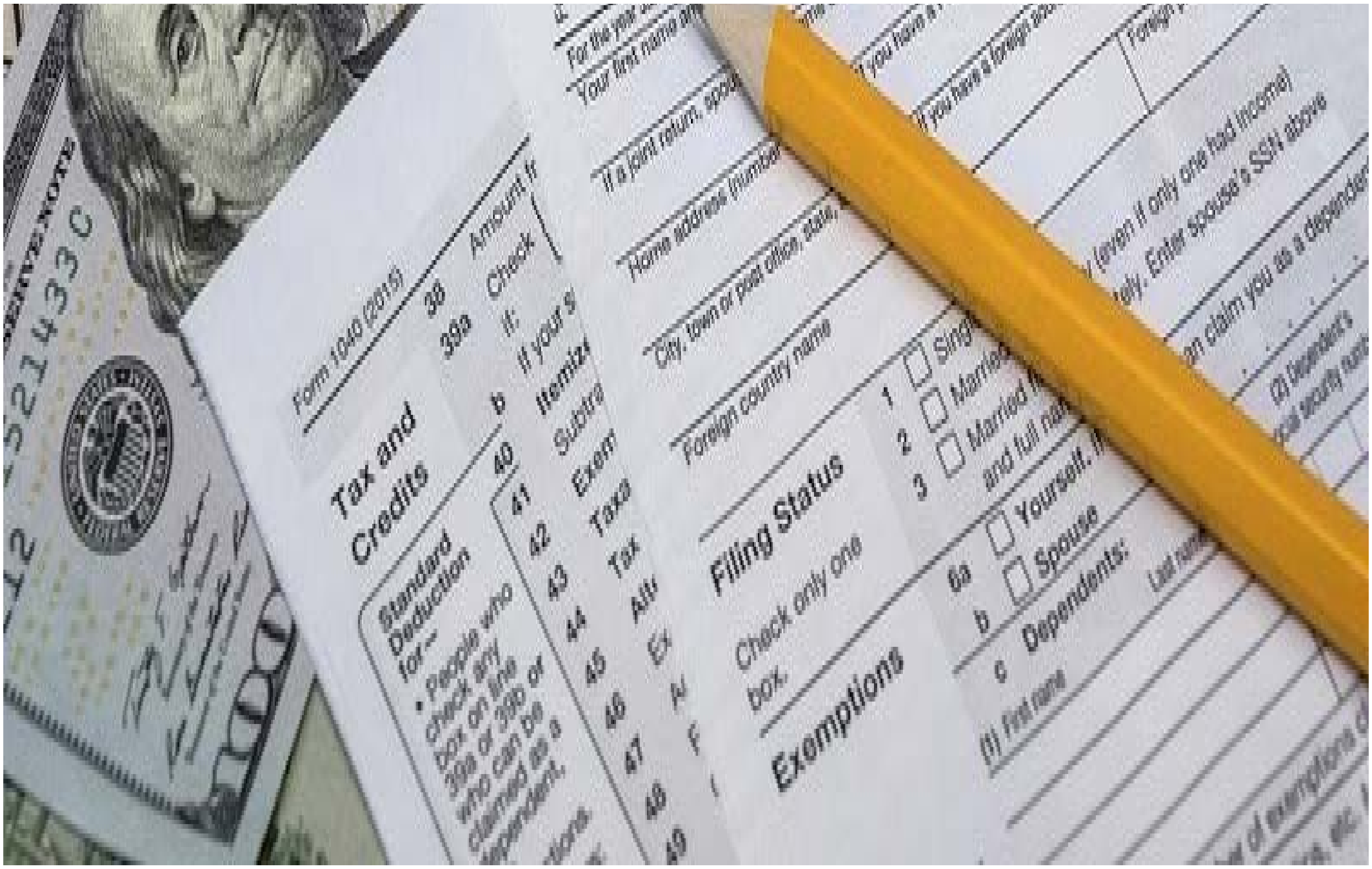
By **Jeff Benjamin**



Registered investment advisers could emerge as **unsuspecting beneficiaries** of the Trump administration's proposed changes to the corporate tax code.

As part of plan to cap the corporate tax rate at 15%, President Donald J. Trump is also proposing a 15% cap for so-called pass-through entities, including limited partnerships, limited liability corporations and S-corporation tax structures commonly used by RIAs.

"The pass-through change is very big," said Leon LaBrecque, managing partner and CEO at LJPR Financial Advisors.

"It will positively affect virtually all of our business clients, as well as our firm," he added. "The possibility of 15% taxes on retained earnings poses a remarkable prospective planning opportunity, and I'll be waiting with bated breath to hear the specifics."

More specific details on the president's tax plan, as well as an eventual outcome, could be months in the making. But for advisers, and many of their business-owner clients, the initial message from the White House is that a **more tax-friendly environment** could be in the making.

Under the current tax rules, income from pass-through entities is added to any other income of the business owner and taxed at an individual rate that could be as high as 39.6%.

If pass-through income is capped, it would be taxed separately at the new level, potentially reducing the **tax burden of small-business owners**.

"This change would benefit anybody who operates a pass-through entity, and most small businesses are pass-throughs," said Peter Creedon, CEO of Crystal Brook Advisors.

"For some taxpayers, it is money saved, but nothing comes for free," he added. "If they're going to give that with one hand, I have to wonder what they are taking away with the other hand, because they will have to also take something away unless the government dramatically cuts back on its spending."

Such pragmatism is why a lot of advisers aren't yet ready to count on the idea of a 15% cap on pass-through entities.

"That's the art of the deal; you go for the max and you take what you can get," said Alfredo Martinez, CEO at HighTower-Boca Raton.

"On the surface, it looks like a 15% tax rate would benefit advisers like us, but I'm not sure it would be so easy to pull that off," he added.

Pass-through entities have been swept up in the debate over corporate tax reform as a way to throw a bone to middle-class Americans as the Trump administration pushes its larger agenda of cutting the corporate tax rate down to 15%.

"I think they want to make this tax bill appealing to small businesses, by showing that it is not just providing a lower tax rate for corporations, but also to mom-and-pop businesses," said John Nersesian, head of the wealth management team at Nuveen.

"But the irony is, even though it sounds good, two-thirds of pass-through income winds up going to the top 1% of all tax payers," he added. "So, even though it's being marketed as tax reform that's beneficial to small businesses, it's also benefitting hedge fund managers and wealthy real estate investors."

Of course, not all advisers are focused directly at the personal-income benefits of corporate tax reform.

"My effective tax rate for my wife and I came in lower than 15%, and it has been for many years," said Kashif Ahmed, president of American Private Wealth.

"The bigger picture is if corporate taxes are lowered to make corporations more competitive on a global scale, which would ultimately help everyone," he added. "If businesses are keeping more money, that should be better for investors and entrepreneurs, and it means advisers should be better positioned to become busier."

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