April 27, 2017

The Trump Administration Reveals its Fundamental Principles for Tax Reform

TAX REFORM
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In the White House's briefing on April 26, it was made clear that tax reform is all about creating more jobs and growing the economy. The details provided on exactly what the Administration's ultimate tax reform package would encompass were significantly less clear.

Gary Cohn, the President's economic advisor, and Treasury Secretary Steven Mnuchin did tell us that under the new White House plan the number of tax rate brackets for individuals would be reduced from the current seven rates to three. The new rate brackets would be 10%, 25% and 35%. They did not elaborate on the levels of income to which these rates would apply.

Another major reform area discussed was the reduction of deductions available to an individual taxpayer. According to Mr. Cohn and Mr. Mnuchin, the current White House plan would only allow itemized deductions for mortgage interest and charitable donations. The plan also calls for an increase of the standard deduction to $24,000 for married filing jointly individuals. There were no discussions regarding the single taxpayer standard deduction, but from all other plans previously discussed it apparently would be half of the married amount, or $12,000.

A point that the White House emphasized in the briefing was the elimination of the current Alternative Minimum Tax (AMT) system. Both Mr. Cohn and Mr. Mnuchin stressed that the elimination of this system would significantly reduce the complications within the current tax system. This position from the White House has not changed since the President's campaign and is consistent with the previously introduced GOP plan. In this regard, the AMT seems to be destined for elimination if any tax reform can be passed.

It was specifically mentioned that the tax on dividends and capital gains would be reduced to 20%. The current maximum rate on capital gain/dividends is 20% so this "rate reduction" was another way to say that the White House plan would repeal the 3.8% tax on Net Investment Income (NII) from dividends and capitals gains. This repeal would be an area of sure contention with the Democrats. The tax is a major funding portion of the Affordable Care Act. Although the briefing did not specifically address the repeal of the Affordable Care Act, the proposal of the repealing of the Net Investment Income tax would suggest that the two policies may still be linked together.

On the issue of the federal estate tax (referred to as the "Death Tax"), the briefing indicated that the President has remained consistent with his position since his campaign. See our discussion in the watch list section of the tax reform webpage for an elaboration on this topic.

Treasury Secretary Steven Mnuchin spoke on the business tax reform plan. The focus was on reducing the business tax rates to enable United States based companies to be more competitive. The plan also would move the U.S. corporate tax structure from a worldwide to a territorial tax system. This would be a significant change in that only corporate income derived in the US would be taxable by the US. As with many of the other ideas presented, there are a tremendous amount of details that must be addressed before this could become law.

The White House plan calls for a reduction on corporate and pass-through business income tax rates to 15%. During the briefing, the Treasury Secretary assured the audience that rules would be in place to prevent individuals from utilizing pass-through entities to reduce their income tax on taxable income that would otherwise be subject to the higher personal rates.

A major part of the White House plan is the one-time tax on previously untaxed foreign corporate earnings of U.S. companies. The reduced rate and the timeframe allowed to pay the associated tax could not be elaborated on since negotiations on all reform matters are currently underway with Congress.

While the briefing did not bring many details and specifics of a comprehensive tax reform package to light, it did provide us with some insight that the President is not straying too far away from his original tax plan that was presented during the election campaign. Although he also seems to be allowing room for compromise, it still remains to be seen how the Democrats will react to any plan. If the President and the GOP can’t garner any Democratic votes to get to the 60 vote minimum for permanent tax reform, all of the tax cuts will expire within 10 years, meaning the AMT tax could rear its ugly head again someday.

As more details and developments emerge on the tax reform plan, we will continue to keep you informed by continuously updating the Schneider Downs Tax Reform Page.

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