

Trump's Tax Reform Proposal



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On Wednesday, April 26, the White House issued a single page of double-spaced bullet points outlining President Trump's tax proposals. These proposals undoubtedly will be worked-over by Congress in coming weeks and months, so perhaps the best way to view them is as the beginning of a lengthy and likely contentious process leading to outcomes that could be very different from these initial proposals.

Here are some of the highlights of President Trump's plan:

Individual

- Individual tax brackets, of which there now are seven, ranging from 10% to 39.6%, would be reduced to three brackets, 10%, 25%, and 35%. No details have been announced about where the breakpoints in the brackets would be.
- Home mortgage and charitable gift tax deductions would be protected under the plan, but other itemized deductions (those for medical expenses, state and local taxes, and miscellaneous) are not mentioned and may not be intended to survive under the proposals.
- Additional tax breaks largely targeted at the middle class would provide a doubling of the standard deduction and additional tax relief for working families with child care expenses.
- Three taxes significant to our clientele would be repealed under the President's plan, these being the alternative minimum tax, federal estate tax, and 3.8% tax on net investment income.
- The skeleton-like proposals make no mention of any change in tax rates on capital gains.

Business

- For businesses, a flat 15% tax rate would replace the multiple existing corporate tax brackets ranging from 15% to 35%. This 15% rate apparently would apply to corporations and to pass-through entities (and perhaps sole proprietorships) also. Many questions regarding how the proposed 15% tax rate on pass-through entity business income would be structured are unresolved at this early stage of the process.
- For businesses operating outside the U.S. the plan calls for a territorial tax system, which generally would exclude from U.S. tax foreign business income. Also, the plan would impose a one-time tax on corporate earnings held overseas and on which U.S. tax has been deferred. The "one-time tax" rate is not specified.

We welcome discussing these proposals with you, but until "there's more meat on their bones," many questions will be unanswerable.