White House Calls For Big Individual And Business Tax Cuts, And More

P resident Trump has unveiled a tax re-form outline –the “2017 Tax Reform for Economic Growth and American Jobs.” The outline calls for dramatic tax cuts and simplification: lower individual tax rates under a three-bracket structure, doubling the standard deduction, and more than halving the corporate tax rate; along with changing the tax treatment of pass-throughs, expanding child and dependent incentives, and more. Both the alternative minimum tax and the federal estate tax would be eliminated. The White House proposal does not include spending and tax incentives for infrastructure; nor a controversial “border tax.” According to White House officials, the President’s proposals set out broad principles with specifics to be hammered-out in coming weeks.

**INDIVIDUALS**

**Tax Rates**

The President’s proposal calls for replacing and lowering the current individual tax rates with a new, three-bracket range: 10, 25, and 35 percent. Under current law, individual income tax rates are 10, 15, 25, 28, 33, 35, and 39.6 percent.

**IMPACT.** At this time, the White House proposals are just that, proposals. No legislative language has been revealed. Congressional tax writing committees will need to weigh in. The House Ways and Means Committee and the Senate Finance Committee have been engaged in tax reform discussions both in public and behind the scenes. Regarding a timeline, Administration officials have predicted that tax reform “will not slide into 2018.”

**Standard Deduction**

The President's plan calls for doubling the standard deduction. The 2017 standard deduction amounts under current law are $6,350 and $12,700, respectively, as adjusted for inflation.

**IMPACT.** One goal of a higher standard deduction is to simplify tax filing by cutting more than half those taxpayers who would otherwise do better itemizing deductions.

**COMMENT.** During his campaign, Trump had also proposed a cap on the amount of itemized deductions that could be claimed at $100,000 for single filers and $200,000 for married couples filing jointly. Additionally, according to campaign materials, all personal exemptions would be eliminated, as would the head-of-household filing status. These “give-backs” to offset some
of the costs of the rate cuts and the higher standard deduction may arise during negotiations on Capitol Hill in ironing out the “details.”

**Deductions**

The President’s plan would eliminate all individual tax deductions except for the mortgage interest deduction and the charitable contribution deduction.

**IMPACT.** The loss of many itemized deductions would channel an even greater number of taxpayers to the standard deduction. Big losers may include state and local governments that depend upon the federal itemized deductions for state and local income taxes and real estate taxes as an indirect subsidy for those taxes. Losing the medical expense deduction and the miscellaneous itemized deduction will also prove difficult for some taxpayers. “Above-the-line” deductions apparently would also be eliminated, although the administration would carve out deductions for retirement savings.

**COMMENT.** The three largest refundable individual credits currently are the earned income tax credit, the additional child tax credit and the American Opportunity Tax Credit. In tax year 2015, these refundable credits totaled $102 billion, according to the Treasury Inspector General for Tax Administration. They may also be targeted for elimination.

**Elimination Of Targeted Tax Breaks**

The President’s tax proposal also outlines without elaboration the elimination of “targeted tax breaks that mainly benefit the wealthiest taxpayers.” During his campaign, Trump had mentioned elimination of carried interest. Various “preference items” that are now caught in the AMT may also be targeted for change.

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**Net Investment Income Tax**

The net investment income (NII) tax imposes a 3.8-percent tax on certain investment income of higher income taxpayers. The President has proposed to repeal the NII tax.

**IMPACT.** The President’s proposal apparently keeps the current framework for capital gains and dividend taxes at the top 20-percent rate. The NII generally impacts individuals with adjusted income of above $200,000 ($250,000 for married, filing jointly).

**COMMENT.** Trump’s campaign proposals had included the creation of a new deduction for child and dependent care expenses, as well as increasing the earned income tax credit (EITC) for working parents who would otherwise not qualify for the deduction. A system of “spending rebates” and “above-the-line” deductions was proposed, as well as Dependent CARE Savings Accounts (DCSAs) with matching government contributions and an expanded credit for employer-provided child care.

**Estate Tax**

The President’s proposal calls for elimination of the federal estate tax. The current maximum federal estate tax rate is 40 percent with an inflation-adjusted $5 million exclusion ($5.49 million in 2017).
**IMPACT.** During his campaign, Trump also mentioned replacing the estate tax with a carryover basis rule under which beneficiaries must use the decedent’s basis in inherited assets rather than their date-of-death values. His proposal also does not answer the question of what will become of the gift tax.

**Alternate Minimum Tax**

The President’s proposal calls for abolishing the AMT, calling it a complicated, unnecessary addition to the tax system. A parallel tax structure, the AMT, has existed for the stated purpose of ensuring that individuals, corporations, estates, and trusts with substantial income do not avoid tax liability. Despite exemptions, it has captured an increasing number of taxpayers to the extent that it forces many individuals “to do their taxes twice to see which is higher,” according to the administration.

**COMMENT.** National Taxpayer Advocate Nina Olson has recommended Congress permanently repeal the AMT. Although it serves as a revenue source, significant tax reform would likely present other options to offset the cost of elimination.

**BUSINESSES**

**Corporate Taxes**

The President’s proposal calls for a 15-percent corporate tax rate. The maximum corporate tax rate currently tops out at 35 percent.

**IMPACT.** This proposal is being called one of the most aggressive within the President’s plan, projected by some accounts to reduce revenues by $2 trillion over 10 years. Other projections call for economic growth to make up a significant part of the difference.

**COMMENT.** Although the current maximum corporate tax rate is 35 percent, many corporations now pay an effective tax rate that is considerably less. The President also proposed to eliminate unspecified tax breaks for “special interests,” which would broaden the tax base and largely prevent most businesses from gaining an effective rate much lower than 15 percent.

**Small Businesses**

Currently, owners of S corporations and partnerships and sole proprietors pay tax at the individual rates, with the highest rate at 39.6 percent. The President has proposed a 15-percent tax rate for pass-through income.

**IMPACT.** Small business owners, therefore, would see their top tax rate reduced from 39.6 percent to 15 percent under the President’s plan.

**IMPACT.** This plan would appear to give a business quasi-corporate status in being able to be taxed at a new 15 percent corporate tax rate, at least until assets are distributed. Upon distribution, Trump’s campaign materials had indicated that a second layer of tax would be imposed similar to dividends now taxed to C corporation shareholders.

**COMMENT.** Trump’s campaign materials also had indicated consideration of rules that would prevent pass-through owners from converting their compensation income taxed at higher rates into profits taxed at the 15-percent level. Mnuchin has stated that provisions would preclude wealthy owners of large companies from gaming availability of the lower rate.
**Bonus Depreciation/Small Business Expensing**

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) extended and modified bonus depreciation and made permanent enhanced Code Sec. 179 expensing. The President’s proposal does not specifically address bonus depreciation or small business expensing.

**Business Credits**

A number of business incentives were made permanent by the PATH Act, including the research credit, 100-percent gain exclusion on qualified small business stock, and the reduced recognition period for S corporation built-in gains tax. The President’s proposal does not specifically address these and other business incentives.

**Energy**

Current law provides for many energy tax incentives for businesses (and individuals). The President’s proposal does not specifically address energy tax incentives.

**COMMENT.** Some popular energy tax breaks have either expired or will soon expire, setting the stage for renewed negotiations in Congress; whether to extend them, make them permanent, or allow them to sunset permanently.

**INTERNATIONAL**

**Repatriation**

The President’s plan calls for a one-time tax on repatriated profits at a yet-unspecified tax rate. The blueprint states that “trillions of dollars” are being held overseas and potential targets for repatriation.

**COMMENT.** In 2004, Congress provided that U.S. companies could elect, for one tax year, an 85-percent dividends received deduction for eligible dividends from their foreign subsidiaries.

**IMPACT.** The lower corporate tax rate of 15 percent may also provide incentive for businesses not to shift operations overseas going forward.

**Territorial Tax Regime**

The President’s plan would also move to a territorial tax regime instead of a worldwide tax regime.

**COMMENT.** “A territorial system means U.S. companies will pay tax on income related to the U.S.,” Mnuchin said. “U.S. companies will not be subject to worldwide income,” he added.

**INFRASTRUCTURE**

In January, President Trump called for a $1 trillion infrastructure spending bill with unspecified tax incentives. The President’s tax reform proposal does not address infrastructure spending.

**COMMENT.** “The President remains committed to a $1 trillion infrastructure spending initiative,” Mnuchin said recently. Mnuchin had appeared to indicate that infrastructure tax incentives could be part of a final tax reform package.