



PRESIDENT TRUMP AND TAX REFORM – ARE WE THERE YET?

CONFUSION REIGNS: WILL SIGNIFICANT REFORM
ACTUALLY HAPPEN?

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AGENDA

1. Interesting Facts
2. History of Proposed Tax Reform
3. GOP Tax Reform Blueprint
4. Candidate Trump's Tax Proposal
5. President Trump's One-Page Tax Plan
6. Joint Statement on Tax Reform
7. September 2017 Framework for Tax Reform
8. Revenue Effects
9. Comparison of Proposals
10. Q & A

INTERESTING FACTS

NO TAXES – 54.4% OF THE American taxpayers that reported adjusted gross income less than \$50,000 during tax year 2014 legally did not pay any federal income tax (source: IRS).

TAX DATA – The 6.22 million tax returns from 2014 that reported at least \$200,000 of adjusted gross income (AGI) represent 4.2% of all returns filed, received 34.2% of all AGI nationwide and paid 58.2% of all the federal income tax that was paid nationally in 2014 (source: Internal Revenue Service).

INTERESTING FACTS

Federal estate and gift taxes collected during fiscal year 2016 (i.e., the 12 months that ended 9/30/16) were just \$21.4 billion, less than two-thirds of 1% of the \$3.267 trillion of tax receipts collected during the period. Total individual income taxes collected (1040s) were \$1.546 trillion, its largest total ever and more than 5 times the size of the \$300 billion of corporate taxes collected (source: Treasury Department).

INCREASE EVERYONE – Individual income taxes paid by American taxpayers would have to increase by +38% in order to eliminate our \$587 billion deficit from fiscal year 2016 (source: Treasury Department).

HISTORY OF PROPOSED TAX REFORM

- Timeline so far:
 - June 24, 2016: Republican Party issues *Blueprint* for tax reform
 - September 15, 2016: Trump's Campaign Tax Plan
 - January 20, 2017: Trump Inauguration as 45th President
 - April 26, 2017: Administration releases *2017 Tax Reform for Economic Growth and American Jobs*
 - July 27, 2017: Administration and congressional Republican leaders release *Joint Statement on Tax Reform*
 - September 27, 2017: Administration and “Big Six” release *Unified Framework for Fixing Our Broken Tax Code*

RESULTS THROUGH REMARKABLE RELATIONSHIPS

GOP TAX REFORM – “THE BLUEPRINT”

***A BETTER WAY: OUR
VISION FOR A CONFIDENT
AMERICA***

Tax Policy Paper published
on June 24, 2016



RESULTS THROUGH REMARKABLE RELATIONSHIPS

GOP HOUSE TAX REFORM BLUEPRINT

Overall vision of tax reform

- 21st Century tax system built for growth
- For individuals and families, simplification and lower rates
- For businesses, growth and competitiveness of all job creators

GOP HOUSE TAX REFORM BLUEPRINT

Individual Income Tax

- Impact on tax rates
 - Collapse current seven brackets into three:
 - 10/15/25/28/33/35/39.6% current structure
 - 0/12%** less than \$75,300
 - 25%** \$75,301-\$231,450
 - 33%** more than \$231,450
 - Capital gains and dividends – 50% excluded
 - Effective rates **6/12.5/16.5%**

GOP HOUSE TAX REFORM BLUEPRINT

Individual Income Tax

- Repeal of certain taxes
 - 3.8% Net Investment Income Tax (tied with ACA)
 - Alternative Minimum Tax (AMT)
- Deductions and Credits
 - Increase standard deduction from \$12,600 to \$24,000
 - Personal exemptions eliminated
 - Creates \$500 non-refundable credit for non-child dependents

GOP HOUSE TAX REFORM BLUEPRINT

Individual Income Tax

- Itemized deductions – all eliminated except mortgage interest and charitable donations
- Child Tax Credits increased from \$1,000 to \$1,500; AGI threshold increased to \$150,000 MFJ
- Repeal of federal estate and gift tax

GOP HOUSE TAX REFORM BLUEPRINT

Business Income Tax

- Impact on tax rates
 - Corporate tax rate reduced from 35% to 20%
 - Pass-through entity income taxed at max. 25% rate
 - Elimination of corporate AMT
- Deductions and Credits
 - Cost of capital investments fully deductible
 - Eliminates deduction of net interest expense on future loans

GOP HOUSE TAX REFORM BLUEPRINT

Business Income Tax

- Domestic Production and other special interest deductions all eliminated
- All credits except Research & Development repealed
- Changes to Net Operating Loss rules
 - Unlimited NOL carryforward, indexed for inflation
 - No NOL carryback
 - Utilization limited to 90% of net taxable income

GOP HOUSE TAX REFORM BLUEPRINT

Business Income Tax

- Creation of a fully territorial tax system
 - Exemption for 100% of dividends from foreign subs
- Deemed repatriation of foreign profits
 - 8.75% tax rate for cash and equivalents
 - 3.5% tax rate on other profits

PRESIDENT TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL



RESULTS THROUGH REMARKABLE RELATIONSHIPS

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SUMMARY – FUNDAMENTAL REFORM

- Trump's plan would significantly reduce marginal tax rates on individuals and businesses.
- The plan would reduce federal revenues by \$9.5 trillion over its first decade.
- However, unless it is accompanied by very large spending cuts, it could increase the national debt by nearly 80 percent of gross domestic product by 2036, offsetting some or all of the incentive effects of the tax cuts.

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Overall vision for tax reform

- Reduce taxes across-the-board
 - Ensure rich pay fair share
 - No impact on jobs
 - No negative effect on competitiveness
- Eliminate special interest loopholes
- Reduction in business tax rate
 - Keep jobs in America
 - Create new opportunities

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Overall vision for tax reform

- Reduce growing cost of childcare
 - Full deduction of average cost
 - Available to stay-at-home parents

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Individual Income Tax

- Impact on tax rates

-Collapse current seven brackets into three:

-10/15/25/28/33/35/39.6% current structure

-12% less than \$75,000

-25% \$75,001-\$225,000

-33% more than \$225,000

-Current capital gains and dividends rate structure adapted to new brackets **0/15/20%**

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Individual Income Tax

- Carried interest to be taxed as ordinary income
- Repeal of certain taxes
 - 3.8% Net Investment Income Tax (tied with ACA)
 - Alternative Minimum Tax (AMT)
- Deductions
 - Increase standard deduction from \$12,600 to \$30,000
 - Personal exemptions and Head-of-Household filing status eliminated

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Individual Income Tax

- Itemized deductions capped at \$200,000
- Repeal of estate tax
 - Capital gains on appreciation held in estate in excess of \$10M (per couple)
 - Exclusion for small businesses and family farms
 - Contributions to private charity established by decedent or relatives will be disallowed

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Individual Income Tax

- Childcare provisions
 - Above-the-line deduction for children under 13
 - Capped at state average, based on age
 - Eldercare for a dependent also qualifies
 - Not eligible if total income exceeds \$500,000
 - Available for stay-at-home parents, grandparents and paid caregivers

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Individual Income Tax

- Limited to four children per taxpayer
- Eldercare exclusion capped at \$5,000
- Dependent Care Savings Accounts (DCSAs)
 - Annual contribution of \$2,000 from all sources
 - If for children, funds in account at 18 can be used for education expenses, but no more contributions
 - Deposits and earnings free from taxation
 - Rollovers from year to year

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Individual Income Tax

- Government will provide a 50% match up to \$1,000 of parental contributions for lower-income families

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Business Tax

- Lower business tax rate from 35% to 15%
 - Eliminate corporate AMT
 - Maximum rate of 15% on pass-through business income (on individual tax return)
- Deemed repatriation of corporate profits held offshore with a one-time tax rate of 10%, payable over ten years
- Tax future profits of foreign subsidiaries as profits are earned

1960

**17 OF THE 20 LARGEST GLOBAL COMPANIES
HEADQUARTERED IN THE U.S.**



2015

**6 OF THE 20 LARGEST GLOBAL COMPANIES
HEADQUARTERED IN THE U.S.**



The United States corporate income tax system imposes the highest rate in the developed world.



=DOES NOT REFLECT EXACT LOCATION

TRUMP'S TAX PLAN FROM THE CAMPAIGN TRAIL

Business Tax

- Eliminates most corporate tax deductions
- Research and Development credit retained
- Elect to expense capital assets in lieu of interest deduction (no more depreciation)
- Increased business tax credit for on-site childcare
 - Up to \$500,000 from \$150,000
 - Recapture period reduced from ten to five years

PRESIDENT TRUMP'S ONE-PAGE PLAN

2017 Tax Reform for Economic Growth and American Jobs

- Issued on April 26, 2017
- Merely a single page of bullet points with no support
- Details to be hammered out in congressional negotiations
- Most policies aligned with campaign promises

RESULTS THROUGH REMARKABLE RELATIONSHIPS

The image shows a thumbnail of the original one-page tax reform plan. It features a small illustration of the White House at the top, followed by the title "2017 Tax Reform for Economic Growth and American Jobs". Below the title is a subtitle "The Biggest Individual And Business Tax Cut In American History". Underneath that is a section titled "Goals For Tax Reform" which lists four main goals. Following this are two sections: "Individual Reform" and "Business Reform", each containing several bullet points. At the bottom is a section titled "Process" with one bullet point. The entire document is presented in a clean, professional layout with a white background and black text.

PRESIDENT TRUMP'S ONE-PAGE PLAN

Four key components

- Goals For Tax Reform
- Individual Reform
- Business Reform
- Process

PRESIDENT TRUMP'S ONE-PAGE PLAN

Goals For Tax Reform

- Grow the economy and create millions of jobs
- Simplify our burdensome tax code
- Provide tax relief to American families—especially middle-income families
- Lower the business tax rate from one of the highest in the world to one of the lowest

PRESIDENT TRUMP'S ONE-PAGE PLAN

Individual Reform

- Tax relief for American families, especially middle-income families:
 - Reducing the 7 tax brackets to 3 tax brackets of 10%, 25% and 35%
 - Doubling the standard deduction
 - Providing tax relief for families with child and dependent care expenses

RESULTS THROUGH REMARKABLE RELATIONSHIPS

PRESIDENT TRUMP'S ONE-PAGE PLAN

Individual Reform

- Simplification:
 - Eliminate targeted tax breaks that mainly benefit the wealthiest taxpayers
 - Protect the home ownership and charitable gift tax deductions
 - Repeal the Alternative Minimum Tax
 - Repeal the Estate tax
 - silent on gift tax
 - Basis adjustment also not clear
 - Repeal the 3.8% Obamacare tax that hits small businesses and investment income

RESULTS THROUGH REMARKABLE RELATIONSHIPS

PRESIDENT TRUMP'S ONE-PAGE PLAN

Business Reform

- 15% business tax rate
- Territorial tax system to level the playing field for American companies
- One-time tax on trillions of dollars held overseas
- Eliminate tax breaks for special interests

RESULTS THROUGH REMARKABLE RELATIONSHIPS

PRESIDENT TRUMP'S ONE-PAGE PLAN

Process

“Throughout the month of May, the Trump Administration will hold listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of a plan that provides massive tax relief, creates jobs, and makes America more competitive—and can pass both chambers.”

RESULTS THROUGH REMARKABLE RELATIONSHIPS

JOINT STATEMENT ON TAX REFORM

Issued on July 27, 2017



RESULTS THROUGH REMARKABLE RELATIONSHIPS

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JOINT STATEMENT ON TAX REFORM

- Headed-up by the “Big Six”
 - House Speaker Paul Ryan
 - House Ways and Means Chair Kevin Brady
 - Senate Majority Leader Mitch McConnell
 - Senate Finance Chair Orrin Hatch
 - National Economic Council Chair Gary Cohn
 - Treasury Secretary Steve Mnuchin

RESULTS THROUGH REMARKABLE RELATIONSHIPS

JOINT STATEMENT ON TAX REFORM

- Appears intended to build momentum for tax reform
- Desire to have the process follow regular order, rather than a top-down process
- No technical details regarding the issues
 - General areas of consensus
 - Lower individual rates
 - Lower rates for passthrough entities and C corporations
 - Some form of capital expensing
 - Some permanent provisions
 - Repatriation of existing foreign earnings
 - Exclusion of Border Adjustability

RESULTS THROUGH REMARKABLE RELATIONSHIPS

JOINT STATEMENT ON TAX REFORM

- Where do we go from here?
 - Timeline discussed at presentation of *Joint Statement*:
 - House and Senate tax-writing committees begin marking up legislation shortly after Labor Day
 - House and Senate to pass bills in succession in October and November, respectively
 - Tax legislation on President Trump's desk by Thanksgiving
 - President Trump plans to travel the country holding campaign-style rallies to promote an overhaul

RESULTS THROUGH REMARKABLE RELATIONSHIPS

JOINT STATEMENT ON TAX REFORM

- Likelihood?
 - “All of this is happy talk,” Steve Bell, a Republican staff director of the Senate Budget Committee in the 1980s, said about the chances of a tax bill being signed this year
 - In 1986, the process took about 13 months from the date the House Ways and Means Committee began its markup of a bill until the date President Reagan signed it into law
 - Tax reform one most difficult tasks Congress can do
 - Requires taking on special interests
 - Needs support from both sides of the aisle
 - Reagan had support from two key Democrats
 - Republican leaders had far more control over unruly members

RESULTS THROUGH REMARKABLE RELATIONSHIPS

UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Released on
September 27, 2017

Result of discussions
of “Big Six”



UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Individual Taxes

- Reduce current seven brackets to three: 12/25/35%
 - Congress can add a fourth rate above 35%
 - Bracket levels not specified
- Estate and GST Taxes repealed
 - Silent as to fate of gift taxes
- Personal Exemption eliminated
- Standard Deduction doubled (\$12,000 S/\$24,000 MFJ)

UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Individual Taxes

- Child Tax Credit
 - “Significant increase” (currently \$1,000)
 - Increase to income level for phase-out
 - \$500 nonrefundable credit for non-child dependents
- Deductions
 - All itemized eliminated but mortgage interest and charitable donations

UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Individual Taxes

- Deductions
 - Retains tax incentives for work, higher education and retirement savings
- Alternative Minimum Tax repealed

UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Business Taxes

- Corporate tax rate decreased to 20% (from 35%)
- Pass-through entity tax rate of 25%
 - Sole proprietorships, partnerships and S Corps
 - Measures to prevent recharacterization from personal income to business income to avoid top personal rate
- Capital investments – expense immediately for next 5 years, except buildings constructed after 9/27/2017

UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Business Taxes

- Tax credits and deductions
 - Retains R&D and low-income housing credits
 - Limits net interest expense for C Corps
 - Section 199 DPAD discarded
 - Numerous other deductions, credits and exclusions will be eliminated

UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Business Taxes

- Foreign Income
 - Envisions a territorial tax system to remove incentives to keep foreign profits and jobs offshore
 - Exempts foreign profits when repatriated to U.S.
 - 100% exemption for dividends from foreign subsidiaries when U.S. parent owns at least 10%

UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

Business Taxes

- Foreign Income
 - All accumulated untaxed offshore earnings immediately subject to one-time tax at a fixed rate
 - Different rates for cash vs. less-liquid assets
 - Liability spread over “several years”
 - Foreign profits of U.S. Multinational corps will be taxed at a reduced rate and on a global basis

REVENUE EFFECTS

- Reduce federal receipts by \$9.5 trillion between 2016 and 2026.
- This decade is the 10-year budget window plus 2016 (in which revenues would fall slightly because taxpayers would hold off realizing capital gains in expectation of a rate cut in 2017).

REVENUE EFFECTS

- Three-fourths of the revenue loss would come from individual income tax provisions
- Limiting the value of itemized deductions and eliminating certain other preferences would raise individual income taxes
- The business income tax cuts would reduce revenues by about \$3.5 trillion over the decade. Repealing business tax expenditures would recoup about one-quarter of that loss.

COMPARISON OF PROPOSALS:

GOP BLUEPRINT

TRUMP ONE-PAGE PLAN

SEPTEMBER 2017 FRAMEWORK

	GOP Blueprint	Trump One-Page	Framework
Corporate Rate	20%	15%	20%
Interest Deduction	Eliminated	Didn't address	Limited
Capital Expensing	Deduct 100%	Didn't address	100% for 5 years
Other Business Breaks	Preserve R&D and LIFO inventory; allow NOL C/F	No specifics; eliminate tax breaks for special interests	Retain R&D and LIHTC; eliminate other credits
Passthrough Rate	25%	15%	25%
Individual Rate	12/25/33%	10/25/35%	12/25/35% (+ 4TH RATE)
Net Inv. Inc. Tax + Medicare Surtax	Eliminated	Eliminated	Didn't address
Standard Deduction	Doubled	Doubled	Nearly doubled
State and Local Taxes	Eliminated	Didn't address	Eliminated
Mortgage Interest	Retained	Retained	Retained
Charitable	Retained	Retained	Retained
Retirement Savings	Retained	Retained	Retained
Child Tax Credit	Increase to \$1,500	Provide relief to families	Raise significantly + nonchild of \$500
Carried Interest	Didn't address	Ordinary Income	Didn't address
Estate Tax	Eliminated	Eliminated	Eliminated
International Regime	Territorial approach 2-tier repatriation 8.75% cash; 3.5% others 8 yr repayment	Territorial approach one-time tax on repatriation no rate specified	Territorial approach 2-tier repatriation no rate stated
Base Erosion Prevention	Border Adjustment Provision	Didn't include	Global minimum tax; anti-erosion measures

QUESTIONS?



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