

## Trump Tax Proposal Update

On Wednesday, April 26th, the White House released an initial statement on President Trump's goals for tax reform in the coming year. The attached one-page document provides few details, but helps to clarify the proposals from the campaign trail on which the Administration will focus. Key features are included below, along with our first observations:

- **Tax Rates** The proposal includes a significant slashing of the corporate tax rate from 35% to 15%. Business income from partnerships and S corporations would receive favorable tax treatment as well. For individuals, the current hierarchy of seven tax brackets would be reduced to three, while reducing the top marginal tax rate from 39.6% to 35%. *Much more explanation will be needed for the "pass-through entities" taxation rate—if these are indeed taxed at 15%, there will be a strong incentive to move virtually all closely-held businesses to these structures.*
- **Itemized Deductions** All personal itemized deductions, with the exception of mortgage interest and charitable contributions, would be eliminated. This includes the state and local income tax deduction. *Individuals in high-tax states—such as New York and California—would be subject to a higher effective tax rate on their overall income if this deduction for state taxes is eliminated on the federal tax return.*
- **Territorial Tax System** Trump's plan would eliminate the current US system of taxation on worldwide income, replacing it with a "territorial" system where taxpayers are generally only subject to tax in the jurisdiction where income is earned, which is similar to the taxation by most industrialized countries. To transition to this system, the proposal would impose a one-time repatriation tax on "trillions" of profits held by US companies in foreign countries. *Notably, the White House document does not mention a border-tax adjustment, which has been included in previous GOP proposals.*
- **Other Taxes Eliminated** Consistent with campaign trail promises, Trump's proposed tax reform would eliminate the estate and gift tax, the alternative minimum tax and the 3.8% Obamacare investment income tax.

Because it offers so few details, the White House summary raises more questions than answers, and the legislative process in Congress will likely result in significant modifications to most if not all of the proposed changes. Although still very early in the process, it seems that Trump's aim is



not a complete overhaul of the tax code, but instead a simplification of current law and a broadening of the taxable base. While the proposal touts the expected benefits to middle-income taxpayers, many of its key features would mainly benefit high-income taxpayers. The repeal of estate and investment income taxes, as well as the reduction of the top marginal tax rates on individuals and businesses, could result in significant tax savings for high-wealth/high-income individuals. House Ways & Means Chairman Kevin Brady is pushing strongly for tax legislation in this year, but the last major tax overhaul in 1986 took over five years of planning, negotiation and compromise. Stay tuned.

If you have questions about the proposal or how it could affect your current tax situation, please contact your BT Tax Representative by calling 770.396.2200.

*The above information is general in nature and should not be relied upon for any specific tax implication or investment decision. Actual results may differ, and readers are cautioned not to place reliance on these general observations. Consult with your adviser or counsel before undertaking any specific action.*

White House Release on Wednesday, 26 April 17

## **2017 Tax Reform for Economic Growth and American Jobs**

*The Biggest Individual And Business Tax Cut In American History*

### **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

### **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
- 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 death tax
- Repeal the 3.8% Obamacare tax that hits small businesses and investment income

### **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

### **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.