Trump Administration Releases Blueprint of Tax Reform

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On April 26, 2017, the Trump Administration announced a blueprint of tax reform principles that is described as ?The Biggest Individual and Business Tax Cut In American History.? The Administration identified four goals for tax reform including growing the economy and creating millions of jobs, simplifying the tax code, providing tax relief to middle-income families, and lowering the business tax rate.

For individual taxpayers, the proposal reduces the current 7 tax brackets (from 10% to 39.6%) to 3 tax brackets of 10%, 25% and 35%. In addition, the proposal would double the standard deduction from $12,700 for a married couple in 2017 to $25,400. The proposal would also provide tax relief for families with child and dependent care expenses.

The proposal would eliminate all itemized deductions, other than the home mortgage interest deduction and charitable deduction. Notably, the deduction for state income taxes would be eliminated. In addition, the proposal would repeal the Alternative Minimum Tax and the 3.8% net investment income tax used to pay for health care coverage under the Affordable Care Act.

Also, the proposal would ?repeal the death tax.? This ostensibly refers to the estate tax; no mention is made whether the gift tax or the generation skipping transfer tax are repealed and whether there would be a basis adjustment at death.

From a business tax perspective, the proposal would create a 15% business tax rate that would apply to regular corporations and entities taxed as pass-throughs, such as partnerships, LLCs, and S corporations. From an international tax perspective, the proposal advocates a territorial tax system that would level the playing field for American companies. In addition, there would be a one-time repatriation holiday that would tax trillions of dollars held overseas and returned to the U.S. The proposal vows to eliminate tax breaks and loopholes for special interests.

The Trump Administration indicated that it will hold listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of the plan. It is not clear whether the plan would be revenue neutral. If it is not revenue neutral, it will likely have a ten-year expiration date, like the Bush tax cuts enacted in 2001.

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