

## Tax Notes

# Key Components of Trump's Tax Plan Unveiled

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On April 27, 2017, Gary Cohn, Director of the National Economic Council, and Steven Mnuchin, Secretary of the Treasury, unveiled a high-level overview of President Trump's tax plan. The plan was described as a "once in a generation opportunity to do something really big." President Trump's tax plan does have many attributes of the "Republican Blueprint" as outlined in a prior newsletter, [The Tax Outlook Under Trump](#).

Although the tax plan at this time is sparse with details, it was made clear that President Trump's focus is on job creation, economic growth, helping lower-to-middle income families and tax simplification. It was described as the "biggest tax cut" in U.S. history — but it left unanswered questions about whether the plan would be paid for, or how. At this juncture, the plan will move to Congress where the House and Senate will meet, discuss and debate specifics over the next several months.

What follows are the key elements of the plan.

### Individuals

- Reduce the number of individual income tax brackets to three: 10%, 25% and 35%. Currently, there are seven. Where the actual tax brackets begin and end is unclear.
- More than double the standard deduction effectively creating "a 0% tax bracket" on the first \$24,000 of income for those filing jointly. Currently, individuals can deduct \$6,350 and married couples can deduct \$12,700 from taxable income. The hope here is that many Americans will no longer have to itemize their tax deductions nor keep detailed records.
- Repeal of the parallel and complicated tax system — the Alternative Minimum Tax (AMT) — which vexes millions of taxpayers.
- Repeal of the 3.8% tax on Net Investment Income which currently applies to most types of investment income and other passive type income for taxpayers over certain income thresholds. Such a repeal would restore the long-term capital gain and qualified dividend rate to 20%.
- Repeal of the Estate or "Death" Tax.
- Elimination of certain itemized deductions, such as state and local taxes, the specifics of which are unclear. Deductions for mortgage interest, charitable giving and retirement benefits will be preserved.

### Businesses

- Lowering the corporate tax rate from the current rate of 35% to 15%. This would put the U.S. on par with other nations and make U.S. businesses more competitive.
- The 15% rate would also apply to pass-through entities, such as partnerships and LLCs, the details of which are not known yet. However, Secretary Mnuchin was clear that rules would be in place to ensure that "wealthy people" could not create pass-through entities to lower their tax.

- The plan would create a territorial system of taxation that would exclude foreign sourced income from taxation. It also would provide a “one-time repatriation tax” holiday on trillions of dollars of corporate earnings residing outside the U.S. and not previously taxed. The tax rate was not discussed, but President Trump has previously proposed a 10% tax rate.

## Observations

At first blush, the plan appears to be more of a tax cut and not a full blown tax reform. Secretary Mnuchin said the proposal would “pay for itself, with economic growth and with reduction of different deductions and closing loopholes.” As of now, there are few revenue raisers. The proposed tax plan does not raise taxes on hedge fund managers, as President Trump previously stated; instead, by virtue of the potential cut in LLC tax rates, it could lower the tax bill of many hedge fund managers. Lastly, because the state and local tax deduction could disappear, for many Americans in high state tax jurisdictions the net effect could be to raise, not lower, the amount of federal tax owed.

## Summing Up

President Trump has made it clear that job creation, economic growth, providing tax relief for families with child care and tax simplification are the key elements of his tax plan. Although the Administration wants to finalize this massive tax relief plan this year, there is still a lot of negotiation that must occur. The Trump Administration will hold listening sessions for comments. It is possible that the final form of tax legislation may differ from the general proposals he has floated so far. Nevertheless, we expect significant tax legislation to be passed. We will continue to monitor this and provide ongoing Thought Leadership pieces as to the effect prospective tax legislation will have on individuals and businesses.

## Contact Us

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