ROPES & GRAY

ALERT

Tax

April 27, 2017

Trump Administration Releases Tax Reform Framework

Attorneys
Lee E. Allison
Kat Saunders Gregor
David H. Saltzman

On April 26, 2017, the Trump Administration announced several key tax reform proposals. Broadly resembling the Trump campaign platform, the proposals furnish only a high-level aspirational framework for wide-ranging reforms, the details of which the White House expects to develop through discussions with Congress and taxpayers. Notably, the framework does not include House Republican "Blueprint" proposals to expense capital investment, limit interest deductions, or implement "border adjustments."

For businesses, the Trump Administration proposes to:

- Lower the maximum corporate tax rate to 15%.
- Apply the 15% rate to business income of pass-through entities, including S corporations and partnerships.
    - Complex implementation issues can be expected because the top individual rates will exceed the 15% business income rate.
    - Special rules would likely be needed to prevent regular compensation income from benefiting from the 15% rate.
- Provide a one-time deemed repatriation of existing earnings of foreign subsidiaries, taxable at a reduced rate.
    - Treasury Secretary Mnuchin indicated the rate would be "competitive," but did not recommit to the 10% rate described in Trump's campaign plan.
- Going forward, adopt a territorial international tax regime.

For individuals, the Trump Administration proposes to:

- Lower the top individual tax rate to 35%.
- Repeal the 3.8% net investment income tax (NIIT) that was introduced as part of Obamacare.
- Retain the 20% maximum tax rate on dividends and capital gains (exclusive of NIIT).
- Double the standard deduction for individuals and married couples.
- Eliminate most itemized deductions, including the deduction for state and local taxes (unfavorable for individuals in states with higher income tax rates).
- Preserve itemized deductions for mortgage interest, charitable contributions, and contributions to qualified retirement plans.

- Provide a new tax credit for the care of children and dependents.
- Repeal the alternative minimum tax.
- Eliminate the estate tax.

Differences between the framework and previous Trump tax pronouncements:

- Contains no commitment to budget-neutral tax reform.
- Does not mention budget offsets, such as limitations on interest expense deductions or the elimination of carried interest.
- Contains no commitment to implement permanent tax reform, as opposed to tax cuts that would sunset in 10 years.

The political prospects of these proposals, as well as the tax reform process, remain uncertain. For more information about these or other tax reform proposals, please consult Lee Allison, Kat Gregor, or David Saltzman, or your regular Tax Group contact.