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Treasury Secretary comments about tax reform, border adjustments, “reciprocal tax”

Treasury Secretary Mnuchin on February 26, in an interview on Fox News Channel's Sunday Morning Futures, indicated that President Trump would be touching on tax reform in his speech to a joint session of Congress on Tuesday evening, February 28.

The following provides some highlights of the tax reform items discussed by Secretary Mnuchin.

Individual and business tax reform

On the individual side, Secretary Mnuchin indicated that the focus is on fewer tax brackets, simpler taxes, and creating a middle income tax cut. On the business side, he indicated that the focus is on making U.S. companies competitive, noting the “need to create a level playing field for U.S. companies to be able to compete in the world.”

Repatriation

In terms of repatriation, Secretary Mnuchin noted that he expects that companies “will bring back trillions of dollars that are sitting offshore and redeploy those in the United States.” He also indicated that the administration is looking at “different types of parts of the plan” to encourage businesses to use that money to create new jobs and invest in the business, rather than just buy back stock.

Border adjustment

When asked by the interviewer (Maria Baritromo) about the border adjustment (i.e., the proposal in the House Republican “blueprint” for tax reform), Secretary Mnuchin did not indicate whether the administration supported or opposed the proposal. Instead, he stated:

So, let me just say this is something we are studying very carefully. There are certain aspects that the president likes about the concept of a border adjusted tax, there are certain aspects that he's very concerned about. So we're looking at these things. We're looking very closely with the House. We're working very closely with the Senate. And you're going to see a combined plan that takes the best of all of this when we bring it forward.

Later in the interview, when asked about potential complexities associated with a border adjustment tax for companies with intricate supply chains that are both importers and exporters, Secretary Mnuchin reiterated that there would be a “joint plan” that “will be something that will be simple, that companies will know how to incorporate.”

In response to a question about the over \$1 trillion in revenue expected to be raised by the proposed border adjustment, Secretary Mnuchin recognized that this revenue could be used to lower the business and corporate rate, which he indicated was important. Nonetheless, he also indicated that the administration's growth projections alone would provide for more revenue. Affirming the administration's belief in dynamic scoring, he explained that:

. . . if we make business taxes more competitive, people will do more business here and we'll get more revenues. So although there may be an absolute lower rate, that doesn't necessarily mean it's a corresponding drop in revenues.

No “trade wars”

In response to a question about whether he worried about possibly getting into a trade war if the United States were to enact a proposal that looks like a border tax, the Treasury Secretary said:

Well, we're not going to get into trade wars. But what we are going to do is the president believes in free trade. But he believes in fair trade. And we're going to renegotiate these dollars so they're good for the American public, they're good for the American worker and they're good for American companies. And all we're looking for are fair deals where the deals work for us and they work for the other parties.

New “reciprocal tax”?

When asked about particular options being considered, Secretary Mnuchin suggested that one of the concepts that the president is considering is “...a reciprocal tax, which is basically saying we want to create a level playing field so that other countries treat us the way we're treating them.” The Treasury Secretary indicated that this would not be a retaliatory tax, but did not provide details regarding what a possible reciprocal tax might look like or to what extent it might interact with or replace a border adjustment-type tax.

Timing

Secretary Mnuchin indicated that both healthcare and tax reform are both big priorities, with important economic impacts. In terms of tax reform in particular, he stated:

We need some more time to get tax reform done. And we're doing it under lightning fast proposals. So, you know, for us to get this done by August, which we anticipate we'll do, is going to be really fast.

KPMG observation

President Trump may reveal more regarding his views on tax reform in conjunction with his speech to Congress tomorrow or in the weeks that follow. At this time, it is not clear what the “reciprocal tax” idea is or exactly how the White House views the House’s border adjustment tax proposal. The timing for tax reform also remains murky.

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