# Privately Speaking

**Insights on private company growth from private company insiders**

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## What to expect from tax reform

*It is clear that tax reform is high on the agenda for the new administration in Washington. House Republicans outlined their tax reform blueprint last summer. President Donald Trump has made his intention to reform the tax code clear. And privately held companies are likely to be affected.*

*In this edition of Privately Speaking, KPMG's private markets professionals take a look at the proposed changes, answer some of the big questions, and provide some insights on the possible impacts and implications of an income tax rate reduction and other reform proposals for U.S. businesses.*

### Tax reform in 2017

If last year's election made anything clear, it was that tax reform could be coming soon to the United States. Both President Trump and congressional Republicans have advocated significant tax law changes. Both share the same "big picture" goals of reducing tax rates for businesses and individuals. Now that Republicans control the House, the Senate, and the White House, we are likely to see more action on, debate over, and interest in tax reform than we have seen in decades.

### Who might benefit from tax reform?

Based on the Republican blueprint and the platform articulated by President Trump, some privately held businesses may enjoy lower tax rates as a result of reform. On one hand, asset-intensive businesses, those with low levels of leverage, and those with a high proportion of domestic suppliers and foreign customers (i.e., net exporters), may benefit.

On the other hand, businesses, such as net importers and those that are highly leveraged, may see a less favorable result under the proposed tax reforms. Any businesses that depend on any type of tax incentive may also have cause for concern.

**How soon will new legislation be passed?**

During a recent KPMG-sponsored event, the Chairman of the House Ways and Means Committee—Kevin Brady (R-TX)—suggested that tax reform would happen early in the new Trump administration. Without any roadblocks, that means that Ways and Means could produce a draft bill as soon as spring 2017, according to Rep. Brady.

But that is where things get tricky. The legislation would still need to pass through the House, the Senate (where a filibuster is possible), and maybe even a conference committee. And healthcare reform may be a higher priority for Washington coming out of the election. So the timing is unclear.

It may be worth noting that, in the last round of major tax reforms in 1986, it took about 13 months for the bill to move from Ways and Means to enactment. That, however, was under a divided government.

## Dropping the rate

A closer look at recent tax reform proposals from the House Republicans (the blueprint) and President Trump:

### For businesses:

| President Trump | Blueprint |
|---|---|
| — 15 percent business rate for "all businesses, both small and large, that want to retain the profits within the business"<br>— Firms engaged in manufacturing in the United States may elect to expense capital investment and lose the deductibility of corporate interest expense<br>— Eliminate most "corporate tax expenditures" but not the R&D credit<br>— Repeal corporate alternative minimum tax (AMT)<br>— Leverage public-private partnerships, and private investments through tax incentives, to spur $1 trillion in infrastructure investment over 10 years on a revenue neutral basis. | — 20 percent corporate rate<br>— Full expensing of the cost of investment in tangible property and intangible assets, but not land<br>— Interest expense deductible only to the extent of interest income, with any net interest expense that is not deductible being carried forward indefinitely<br>— Net operating losses carried forward indefinitely and indexed for inflation, but no carryback; carryforwards limited to 90 percent of the net taxable amount for the year of the carryforward<br>— Eliminate various "special interest deductions and credits" designed to encourage particular business activities, but retain the research credit and LIFO<br>— Repeal corporate AMT |

### Taxation for individuals:

| President Trump | Blueprint |
|---|---|
| — 33 percent maximum rate<br>— Retain 20 percent maximum rate for capital gains<br>— Repeal net investment income tax<br>— Tax carried interest as ordinary income<br>— Repeal AMT | — 33 percent maximum rate<br>— 50 percent deduction for capital gains, interest, and dividends (resulting in a 16.5 percent rate for those items)<br>— Maximum 25 percent rate on active income from a sole proprietorship or pass-through entity, except that the amount representing reasonable compensation to owner operators is taxable as ordinary income<br>— Repeal net investment income tax<br>— Repeal AMT |

**What should privately held companies do to prepare?**
While it is still too soon to tell what the effective dates will be for particular provisions or what will actually be included in the final tax reform packages, it is clear that changes will be proposed soon. Based on our experience and our review of recent tax reform proposals, here are five steps that CEOs of privately held companies (and their VC backers) should be taking today:

1. Read the blueprint (and our initial observations), and consider how it might apply to your particular situation and how planning might be affected by proposals contained in the blueprint.
2. Develop a high-level economic model of the possible impacts of tax reform on your business, using reasonable assumptions or alternative scenarios where there is a lack of clarity.
3. Discuss the potential impacts of tax reform with the C-suite and finance leadership, considering the potential impact on the business's tax burden and broader effects on business and operating models.
4. Develop an ongoing strategy for monitoring legislative developments and assessing potential impacts at the business and product level.
5. Consider advocacy priorities and reasonable legislative options. For areas of significant concern, identify potential allies such as trade associations and industry groups.

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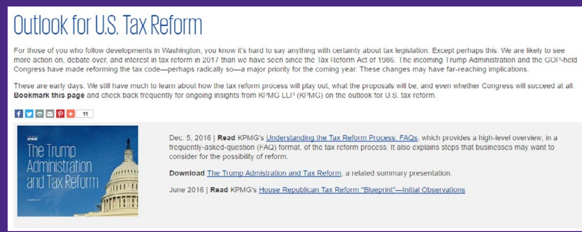

Outlook for U.S. Tax Reform

For those of you who follow developments in Washington, you know it's hard to say anything with certainty about tax legislation. Except perhaps this. We are likely to see more action on, debate over, and interest in tax reform in 2017 than we have seen since the Tax Reform Act of 1986. The incoming Trump Administration and the GOP-held Congress have made reforming the tax code—perhaps radically so—a major priority for the coming year. These changes may have far-reaching implications.

These are early days. We still have much to learn about how the tax reform process will play out, what the proposals will be, and even whether Congress will succeed at all. **Bookmark this page** and check back frequently for ongoing insights from KPMG LLP (KPMG) on the outlook for U.S. tax reform.

The Trump Administration and Tax Reform

Dec. 5, 2016 | **Read** KPMG's Understanding the Tax Reform Process: FAQs, which provides a high-level overview, in a frequently-asked-question (FAQ) format, of the tax reform process. It also explains steps that businesses may want to consider for the possibility of reform.

**Download** The Trump Admistration and Tax Reform, a related summary presentation.

June 2016 | **Read** KPMG's House Republican Tax Reform "Blueprint"—Initial Observations

"Chances for tax reform are better now than they've been since 1986. While the details and timing are not clear, many of the changes currently proposed, if enacted, would have a significant, measurable impact on privately held companies. In spite of the uncertainty, it is important to formulate strategies for the potential law changes now."

—**William Jackson,** National Private Markets Group Tax Coleader

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