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Trump Administration releases tax reform principles

Treasury Secretary Mnuchin and National Economic Council Director Gary Cohn today announced at a White House press conference what they called the "core principles" of the president's plan for tax reform and simplification. They said the administration is working with the House and the Senate on details and on turning the plan into legislation, with the goal of moving as quickly as possible.

The White House has not yet posted an official document summarizing its principles for tax reform.

Overview

According to Director Cohn, President Trump is making tax reform a priority and is proposing the most significant tax legislation since the Tax Reform Act of 1986 and "one of the biggest tax cuts in American history." Secretary Mnuchin indicated that tax reform would pay for itself with a combination of economic growth, reducing deductions, and closing loopholes.

Director Cohn and Secretary Mnuchin did not say whether the president's plan might include a proposal similar to the border adjustment in the House Republican blueprint that was released in June 2016. Further, although they mentioned eliminating business tax breaks for special interests, they did not identify specific provisions the administration might be considering in this regard. They also did not reference using tax law changes to fund infrastructure.

Individual tax proposals

Director Cohn indicated that the president proposes to:

- Reduce the number of individual income tax brackets from seven to three, resulting in 10%, 25%, and 35% brackets

- Double the standard deduction
- Repeal the 3.8% net investment income tax, reducing the maximum capital gains rate to 20%
- Repeal the individual alternative minimum tax
- Repeal the estate tax (which Secretary Mnuchin indicated, in response to a question, could happen immediately, rather than being phased in)
- Eliminate all itemized deductions, except the mortgage interest and charitable contribution deductions
- Provide tax relief to help families with child and dependent care expenses

Business tax proposals

Secretary Mnuchin explained that the president proposes to:

- Lower the income tax rate on corporations, as well as on passthroughs that are "small" or "medium" in size, to 15% (with an unspecified mechanism to be discussed with Congress to address concerns that some individuals might attempt to use passthroughs as a mechanism to avoid paying the properly applicable individual tax rate)
- Move from a worldwide to a territorial tax system
- Impose a one-time tax on existing overseas profits (with the rate to be determined in consultation with the House and Senate)
- Eliminate tax breaks for "special interests"

KPMG observation

The plan outlined today appears quite similar to proposals President Trump made during the presidential campaign. Many details, such as the tax rate for repatriated foreign earnings, the treatment of capital gains at death, and the application of the business tax rate to passthrough businesses have been left to future discussions with Congress.

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