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Trump Administration releases budget proposals

The Trump Administration today released its fiscal year (FY) 2018 budget, entitled "A New Foundation for American Greatness." The budget contains the administration's recommendations to Congress for spending and taxation for the fiscal year that begins on October 1, 2017.

Read more about the FY 2018 budget on the **White House website**.

KPMG observation

In recent fiscal years, the Treasury Department has released an explanation of the tax proposals in the budget (known as the "Green Book") the same day an administration transmitted its budget to Congress. The Treasury Department has not released a Green Book with respect to the Trump Administration's FY 2018 budget proposals.

Tax reform

The budget states the Trump Administration's commitment to tax reform and simplification. It indicates that the administration has articulated several "core principles that will guide its discussions with taxpayers, businesses, Members of Congress, and other stakeholders." It further indicates that "the President is committed to continuing to work with Congress and other stakeholders to carefully and deliberatively build on these principles."

The budget "assumes deficit neutral tax reform" and indicates that the administration will work closely with the Congress on such reform.

Individual tax reform

The budget states that tax relief for U.S. families, especially middle-income families, must do the following:

- Lower individual income tax rates
- Expand the standard deduction and “help families struggling with child and dependent care expenses”
- Protect homeownership, charitable giving, and retirement saving
- End the alternative minimum tax (AMT)
- Repeal the 3.8% net investment income tax
- Repeal the estate tax

Business tax reform

The budget expresses the administration’s belief that business tax reform must do the following:

- Reduce the tax rate on U.S. businesses
- Eliminate most “special interest” tax breaks
- Transition to a territorial system of taxation, enabling businesses to repatriate newly earned overseas profits without incurring additional taxes
- Provide a one-time repatriation tax on already accumulated overseas earnings

KPMG observation

The budget does not include additional technical details on the administration’s tax reform proposals beyond what Treasury Secretary Mnuchin and National Economic Council (NEC) Director Cohn previously announced at a White House press conference on April 26, 2107. Read ***TaxNewsFlash***

Treasury Secretary Mnuchin is scheduled to testify before the House Ways and Means Committee on May 24, 2017, and before the Senate Finance Committee on May 25, 2017, about the administration’s budget, including its tax proposals. Read ***TaxNewsFlash*** and ***TaxNewsFlash***. It is possible that further details could be announced during those hearings.

Other tax proposals

In the context of other policy initiatives, the budget also references several proposals that may relate to tax. For example:

- As part of providing a “path to welfare reform,” the administration proposes to require a social security number that is valid for work to claim the child tax credit and the earned income tax credit.
- As part of its infrastructure plan, the administration proposes to reform the laws governing the Inland Waterways Trust Fund, including by “establishing a fee to increase the amount paid by commercial navigation users of inland waterways.” Read the **fact sheet on the administration's infrastructure initiative** [PDF 62 KB].

- Also as part of its infrastructure plan, the administration describes the private activity bonds program that allows the Department of Transportation to issue tax-exempt bonds on behalf of private entities constructing highway and freight transfer facilities and proposes to lift the current $15 billion cap to ensure that future public private partnership projects can take advantage of the private activity bonds program. The administration also notes its support for the expansion of private activity bonds eligibility. Read the **fact sheet on the administration's infrastructure initiative** [PDF 62 KB].
- As part of reducing "improper payments," the revenue tables in the budget list proposals to increase oversight of paid tax return preparers and to give the IRS more flexibility to address correctable errors. Read **Table S-6** [PDF 759 KB].

Other budget proposals

The administration's budget proposals also address domestic and defense spending, as well as welfare reform. Among other things, the budget proposes:

- Increasing defense spending above the 2017 annualized continuing resolution level
- Funding a wall, infrastructure, and other technology along the southern border
- Providing an infrastructure plan to support $1 trillion in private/public infrastructure investment
- Reducing spending programs by $3.6 trillion over 10 years
- Reforming Medicaid and providing a path towards welfare reform
- Reforming financial regulation and immigration policy

The budget also expresses the administration's commitment to work with Congress to repeal and replace healthcare reform legislation enacted by the Obama Administration. The budget states that, by including anticipated economic gains that will result from the president's fiscal, economic, and regulatory policies, the deficit will be reduced by $5.6 trillion compared to the current fiscal path.

The budget process

As is the case with any administration's budget proposals, there is no expectation that Congress will enact—or even vote on—the president's budget as a whole. Instead, the budget represents the administration's view of the optimum direction of spending and revenue policy.

Congress is not required to pass a budget for FY 2018. However, Congress currently is expected to try to pass a budget resolution for FY 2018, taking into account input from the Trump Administration.

Very generally, a budget resolution sets forth broad targets for spending and revenue goals and instructs various congressional committees to draft legislation meeting particular objectives. Both the House and Senate would need to agree on the identical budget resolution; however, the president would not need to sign the resolution into law.

If the Congress were to pass a budget resolution for FY 2018, this would set the stage for using special budget reconciliation rules to move the implementing legislation. These rules allow legislation meeting certain requirements to be moved forward in the Senate with only a majority of votes (rather than needing 60 votes to avoid a filibuster). The reconciliation rules, however, include a number of procedural "bells and whistles," including that reconciliation legislation generally cannot create a deficit outside the budget window. Congress currently is using the budget reconciliation process for the current (FY 2017) year to address healthcare reform legislation. If Congress passes a budget resolution for FY 2018 before such healthcare reform legislation is enacted, the healthcare reform legislation would lose its reconciliation procedural protections.

KPMG observation

Congressional Republicans currently are expected to attempt to move tax reform using the FY 2018 budget reconciliation process. This would require the House and Senate to agree to a budget resolution for FY 2018 that includes instructions for the tax-writing committees to achieve specified revenue goals. If the budget resolution also deals with other issues (such as spending levels and, possibly, entitlements), passing such a resolution might be complicated by different views among Republicans on different issues.

In addition, the timing of passing a budget resolution for FY 2018 might be delayed as long as reconciliation procedures are still needed to move healthcare reform legislation. Nonetheless, Congress can do preliminary work on many of the issues that would be addressed in reconciliation before passing a budget resolution.

It also is important to note that, if Congress uses a FY 2018 budget resolution to move tax reform, the tax title would need to comply with the procedural requirements of reconciliation (including the requirement of not increasing the deficit outside the budget window). Thus, using reconciliation could affect the design and substance of tax legislation.

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