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Tax Reform Guide

Trump Plan	House Ways and Means Committee Blueprint	What to Watch For
Individual Taxes		
• Includes three tax brackets with a maximum rate of 35 percent • Proposes eliminating the 3.8 percent tax on net investment income and the alternative minimum tax on individuals • Would eliminate all itemized deductions other than those for home mortgage interest and charitable contributions • Proposes doubling the standard deduction • Would repeal the estate tax	• Includes three tax brackets with a maximum rate of 33 percent • Proposes eliminating the 3.8 percent tax on net investment income and the alternative minimum tax on individuals • Would eliminate all itemized deductions except the home mortgage interest and charitable contribution deductions • Would allow individuals to deduct 50 percent of net capital gains, dividends, and interest income	The Trump plan and the House Ways and Means Committee blueprint are very similar with regard to individual tax proposals. The 3.8 percent tax on net investment income may be eliminated as part of healthcare reform legislation. The *American Health Care Act of 2017* passed by the House of Representatives on May 4 also includes the repeal of the tax on net investment income. Trump's latest proposals do not include any comments on maintaining preferential rates on capital gains or capping itemized deductions.
Corporate Taxes		
• Provides for a significant rate reduction coupled with fewer deductions and credits, and a broader tax base • Would eliminate the corporate alternative minimum tax • Proposes lowering the top corporate rate from 35 percent to 15 percent	• Outlines a significant rate reduction with fewer deductions and credits, and a broader tax base • Would eliminate the corporate alternative minimum tax • Proposes reducing the top corporate rate to 20 percent	Because many popular tax breaks, including the (IRC) Section 199 deduction and the Work Opportunity Tax Credit, would apparently be eliminated, the overall benefit to corporate taxpayers might be less than the benefit from the reduction in marginal rates. Businesses should plan for the impact of any reform on their effective tax rates for financial statement purposes.
Border Adjustability		
• Trump's most recent proposal does not include the house border adjustability provisions.	• Offers border adjustability provisions, under which the profits from exports would be tax-free and no cost-of-goods-sold deduction would be allowed for imports • Proposes that border adjustability apply to services	The blueprint's border adjustability provisions are its most controversial proposal. Border adjustability has been strongly opposed by retailers and other industries reliant on imports. The blueprint relies on the added revenues from border adjustability to pay for tax cuts.

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International Taxes		
• Revised plan proposes the adoption of a territorial tax system	• Proposes the adoption of a territorial tax system under which income is taxed in the country in which it is earned and foreign income is not taxed subsequently in the U.S. when profits are repatriated	The adoption of a territorial tax system appears likely.
Deferred Foreign Profits		
• Provides a deemed repatriation of deferred foreign profits, the rates and mechanics of which are still to be determined	• Provides a deemed repatriation of foreign profits over an eight-year period • Taxes foreign profits held in cash at an 8.75 percent rate and all other foreign profits at 3.5 percent	For ASC 740 purposes, a deemed repatriation of foreign earnings would render moot indefinite reinvestment policies, and businesses likely would need to record a tax liability for unrepatriated foreign profits.
Capital Investments and Interest Expense		
• Does not include his campaign proposal that would allow businesses to make an election to take an immediate deduction for purchases of capital assets in exchange for waiving interest expense deductions	• Provides for immediate expensing of capital expenditures and limits interest expense deductions to interest income • Proposes carrying forward any unused interest expense to offset interest income in future years	Many questions remain about the interest expense provisions. It is not clear whether all interest deductions will be limited under the blueprint or just the interest on new debt.
Pass-Through Entities		
• Proposes taxing pass-through entities (for example, partnerships, LLCs, S corporations) at the corporate rate of 15 percent • Acknowledges that mechanisms would need to be put in place to prevent abuse of the favorable rates for pass-through entities	• Proposes taxing income from active pass-through entities at a maximum rate of 25 percent • Deems a portion of a pass-through entity's profits as deductible compensation to owner-operators and makes that portion taxable to the individual at ordinary income rates up to 33 percent	Guidance is needed on the deemed compensation in the blueprint. Trump's latest proposals do not mention taxing carried interests as ordinary income.

Executive Summary

While the tax reform framework outlined by the Trump administration and the House Ways and Means Committee blueprint are similar in many ways, the blueprint's border adjustability provisions are where the most guidance is needed. The retail and oil and gas industries strongly oppose these provisions. Because of the revenue raising potential of the border adjustability provisions, it remains to be seen whether the proposed corporate rate cuts are sustainable from a budgetary standpoint if the border adjustability provisions do not survive.

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