

TAX ALERT

Tax Reform Update

Last Wednesday President Trump, in a speech delivered at a manufacturing company in Missouri, discussed the need for tax reform and broadly outlined his vision of an “America First” tax system. While no specifics were discussed, the President did reaffirm his desire for a 15% business/corporate tax rate. In addition, the President outlined four principles guiding his tax reform efforts:

- 1. A tax code that is simple, fair and easy to understand.** Generally, the goal is to reduce tax rates, eliminate various deductions and reduce complexity.
- 2. A competitive tax code.** This relates primarily to business income tax rates in the U.S. being anti-competitive in relation to the income tax rates imposed by most, if not all, developed countries. The President believes a more competitive tax rate for businesses will create jobs and raise wages for Americans.
- 3. Tax relief for middle-class families.** This would likely be accomplished by a reduction in tax rates, a substantial increase in the standard deduction, and enhanced child-care related tax benefits.
- 4. Repatriation of overseas profits.** Many large multi-national businesses operate on a global basis, and earn substantial profits in countries with lower tax rates. If those profits are brought back to the U.S. they would be subject to incrementally higher tax rates, creating large U.S. tax liabilities. It is estimated that profits parked offshore currently approach \$3 trillion. The President believes that making it less costly to repatriate these funds will spur new domestic investment.

In addition, last Thursday Treasury Secretary Mnuchin announced that the Trump Administration and congressional leaders plan to release a more detailed tax plan this month. Despite the extremely busy schedule filled with high-priority decisions to be made upon Congress’ return this week, this timing is probably realistic, given that the Administration’s economic advisors and congressional leaders have been meeting regularly to discuss options for months.

We look forward to having more detailed proposals to evaluate, and will be informing our client base of proposed changes as they occur. We believe this could be a tricky and potentially lengthy process. Once details emerge, we will effectively enter the second phase of tax reform: one that debates taking away tax benefits in order to fund rate reductions. Intense lobbying is already occurring in efforts to save many of the traditional deductions that could be on the chopping block. It’s going to be interesting, that’s for sure, and hopefully productive.