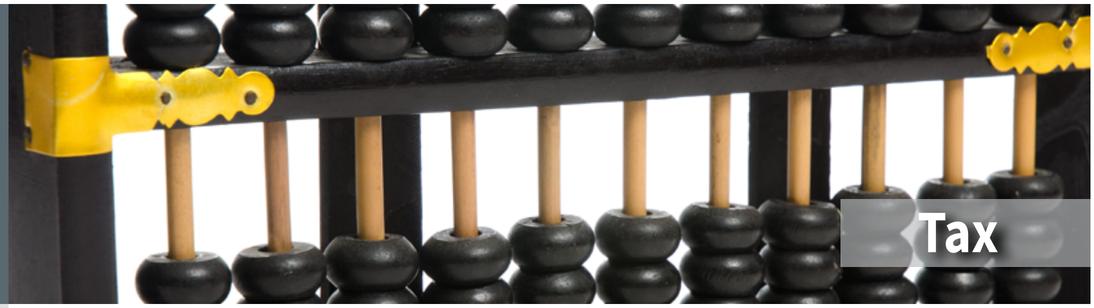

April 2017

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Trump Tax Reform: Tax Policy Outlook

Comprehensive tax reform that lowers business and individual tax rates, streamlines the tax code, and allows U.S. businesses to become more competitive in the global economy are among the top priorities of the Trump administration and Republican congressional leaders. From the campaign trail to the first 90 days in office, President Trump has identified tax reform as a central tenet of his agenda to stimulate economic growth in this country. Although the future of the Affordable Care Act is at the forefront of current political dialogue, **congressional leaders have indicated a tax overhaul would be the second major legislative item after healthcare reform.**

The future of tax policy under the new administration remains speculative since no legislation has been proposed, and differing views remain between the Trump administration and congressional leaders. However, the President and Republican leaders mutually believe that lowering individual and corporate tax rates, among other changes, will ultimately stimulate economic growth. **Here are some highlights from the presidential campaign and House Republican tax proposals:**

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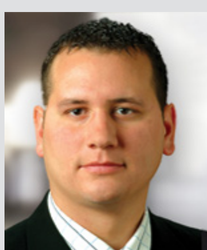

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Trump Tax Reform Proposals

Business Taxes	Individual Taxes
• Reduce the U.S. corporate tax rate from 35% to 15%. • Repeal the corporate alternative minimum tax (AMT). • Owners of sole proprietorships, partnerships, S-corporations, and other pass-through businesses can elect to be taxed on their pass-through business income at the 15% corporate rate, rather than individual tax rates. • Eliminate most business tax expenditures except for the research credit. • Tax "carried interest" at ordinary rates. • Impose a one-time 10% repatriation tax on overseas corporate profits.	• Replace current 7 tax brackets with 3 brackets: 12 percent, 25 percent, and 33 percent. • Repeal individual AMT. • Retain current 20% tax rate on long-term capital gains and qualified dividends. • Repeal the 3.8% net investment income tax (enacted as part of ACA). • Increase standard deduction to $30,000 for joint filers and to $15,000 for single filers (for 2016, standard deduction is $12,600 for joint filers and $6,300 for single filers). • Eliminate personal exemptions and head-of-household filing status. • Cap itemized deductions at $200,000 for joint filers and $100,000 for single filers.

House Republican Tax Reform Proposals

In June 2016, House Republicans issued a 35-page tax reform plan ("A Better Way: Our Vision for a Confident America") that **proposes to lower corporate and pass-through business tax rates, reduce individual tax rates, and provide full expensing for business costs** under a border-adjustable destination-based cash-flow business tax system ("Border-Adjustment tax").

Under the plan, the highest U.S. corporate income tax rate would be reduced from 35 percent to 20 percent. A new pass-through business income tax system with a top rate of 25 percent would apply for owners of C-corporation business entities, S-corporations, LLCs, partnerships, and sole proprietorships. Identical to Trump's proposal for cutting individual tax rates, the House Republican plan would replace the current seven individual tax brackets with three rates set at 12 percent, 25 percent, and 33 percent.

The proposed Border-Adjustment tax **would give tax breaks to U.S. companies that export products to other countries, but would eliminate tax breaks from U.S. companies that import foreign products.** Republican congressional leaders support the tax, stating that it will encourage companies to manufacture and produce goods in the U.S. Although President Trump appeared to oppose the tax during his presidential campaign, recent statements made by the president indicate that he supports the implementation of the tax.

More Reform: Senate Tax Reform Proposals

Senate Finance Chairman Orrin Hatch and his staff have been working on a corporate integration proposal that would subject business income to a single layer of tax. The proposal, which has not been released to date, is expected to adopt changes similar to those proposed by House Republicans.

Outlook

Speaker Paul Ryan will make another attempt to move the American Health Care Act (AHCA) prior to the next recess. The bill contained spending reductions and tax cuts. It is viewed as a down payment on tax reform as the spending reductions would reduce the budget baseline. This, in turn, would reduce the cost of any tax reform legislation.

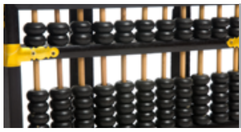
The Republican congressional leadership intends to use the budget reconciliation process to enact a tax bill. This process, by law, prevents a filibuster in the Senate. But it also means the bill will sunset in 10 years. For example, the 2001 Bush tax cuts were enacted using this process. When the 10 years expired, Congress first extended the cuts for one year in 2010 and then made them permanent a year later. Finally, in the Senate, Republicans will likely attempt to reach out to Democrats.

The major conflict among House and Senate Republicans and the White House is the border tax. As noted above, a border tax produces $1 trillion in revenue. This would enable the top corporate rate to fall to 15 percent. House Republicans and the administration support the Border Adjustment Tax. Senate Republicans, including the chairs of the Budget and Finance Committees, strongly oppose the proposal. Without the border tax, the top corporate rate possibly won't fall below 25 percent.

The other conflict is how to deal with the costs of a bill. The Congressional Budget Office and the Joint Committee on Taxation will provide the budget and revenue estimates for a bill. There are discussions in the White House and the Congress on the scoring. **Essentially, there are three possibilities: to fully offset the cost of any bill, to offset part of the bill, or to produce a bill without offsets.** The congressional policy and political issue among Republican budget hawks is their unwillingness to add to the debt. Offsetting the cost of a tax bill would mean substantial spending reductions in entitlement programs, such as Medicare, Medicaid, Social Security, and military and civilian retirement. These issues suggest any tax bill is not likely to become law in 2017.

Looking Forward

While we can expect tax reform, large or small, in the future, it is uncertain whether any tax reform legislation will be passed this year. With the assistance of our colleagues in our Washington, D.C. office, Polsinelli will closely monitor any and all proposed changes that could impact our clients. We will continue to provide updates as the agenda for tax reform moves forward.



For More Information

For questions regarding this alert or to learn more about how it may impact your business, please contact one of the authors, a member of our **Tax** practice, or your Polsinelli attorney.

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