What President Trump's Proposed Tax Plan Could Mean for You

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On September 27, 2017, President Trump unveiled his much-anticipated tax plan in summary form in a document entitled the Unified Framework for Fixing Our Broken Tax Code (the "Plan"). While the document was very brief on details, it sets forth the White House's goals for a new tax package to be developed in Congress. In the document, the President has laid out four principles for tax reform: (i) make the tax code simple, (ii) allow workers to keep more of their pay-checks, (iii) make America the job magnet of the world by leveling the playing field for American business and workers, and (iv) bring back trillions of dollars that are currently kept offshore to invest in the American economy.

Here are some general bullet points on how the Plan will impact individuals and businesses:

How the Plan Affects Individuals

- Collapses tax brackets from seven to three, with tax rates of 12%, 25% and 35%. Currently the tax brackets range from 10% to 39.6%. The Plan does not specify the income levels for the rates; rather, it allows Congress to develop these details.
- Gives Congress the option to create a fourth bracket above 35% to ensure that the tax burden is at least as progressive as the existing tax code and does not shift the burden from high-income to lower- and middle-income taxpayers.
- Adjustments to capital gains rates were not included in the Plan.
- Increases standard deduction to $12,000 for individuals and $24,000 for married couples filing jointly, but also repeals personal exemptions.
- Eliminates itemized deductions except charitable contributions and home mortgage interest. The deduction for state and local taxes is eliminated, as is the deduction for medical expenses and presumably most other itemized deductions.
- Increases child tax credit from $1,000 to an unspecified amount, and creates a new $500 tax credit for non-child dependents, such as the elderly.
- Calls for the repeal of the Alternative Minimum Tax.
- Calls for the complete repeal of both the estate tax and the generation-skipping transfer tax. However, the Plan appears to maintain the gift tax. The Plan is silent on retaining the stepped-up basis rules.

- Repeals most tax credits except for education and retirement savings plans.

How the Plan Affects Corporations and Businesses

- Reduces the corporate income tax rate from 35% to 20%.
- Creates a new tax rate of 25% for pass-through businesses, such as partnerships, S corporations, and sole proprietorships, all of which are currently taxed at the rates of their owners. The Plan relies on Congress to adopt measures to prevent characterization of personal income as business income.
- Preserves tax credits for research and development and low-income-housing.
- Limits the deductibility for corporate interest expenses.
- Allows immediate expense of business investments for at least five years.
- Excludes from income, the dividends from foreign subsidiaries in which the U.S. parent owns at least ten percent of the foreign subsidiary.
- Imposes a reduced tax, expected to be near 10%, on overseas assets owned by U.S. companies that would be deemed repatriated to the U.S., which is designed to bring corporate profits back from overseas to be reinvested domestically.

At this time, the Plan is merely a framework and not actually proposed legislation. Significant work in Congress, in cooperation with the White House, is still necessary if any of these proposals will become law. Einhorn Barbarito plans to keep you informed of the key developments of the tax plan as they occur.