MorrisonCohen LLP
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Wealth Planning Pointer

May 2017

Trump Administration Outlined the Broad Strokes of the President's Proposal for Tax Reform

May 1, 2017 – On Wednesday, April 26, 2017, members of the Trump administration outlined the broad strokes of the President's proposal for tax reform. A one-page handout explaining the plan was distributed to reporters at the White House. Entitled "2017 Tax Reform for Economic Growth and American Jobs – The Biggest Individual And Business Tax Cut In American History," the handout read as follows:

- "Goals for Tax Reform
    - Grow the economy and create millions of jobs
    - Simplify our burdensome tax code
    - Provide tax relief to American families—especially middle-income families
    - Lower the business tax rate from one of the highest in the world to one of the lowest
- Individual Reform
    - Tax relief for American families, especially middle-income families:
        - Reducing the 7 tax brackets to 3 tax brackets of 10%, 25% and 35%
        - Doubling the standard deduction
        - Providing tax relief for families with child and dependent care expenses
    - Simplification:
        - Eliminate targeted tax breaks that mainly benefit the wealthiest taxpayers
        - Protect the home ownership and charitable gift tax deductions
        - Repeal the Alternative Minimum Tax
        - Repeal the death tax
    - Repeal the 3.8% Obamacare tax that hits small businesses and investment income
- Business Reform
    - 15% business tax rate
    - Territorial tax system to level the playing field for American companies
    - One-time tax on trillions of dollars held overseas
    - Eliminate tax breaks for special interests

- Process: Throughout the month of May, the Trump Administration will hold listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of a plan that provides massive tax relief, creates jobs, and makes America more competitive—and can pass both chambers."

Clearly, the Trump "plan" is more of an outline of ambitious goals, and there seems to be no way to pay for the plan outside of the "increased economic growth" promised by the Trump administration. Therefore, absent support from Democrats across the aisle (which seems very unlikely) the Republicans will need to utilize the budget reconciliation process to enact any iteration of Trump's plan. Reconciliation allows the Senate to pass a tax plan with a simple majority, rather than a sixty (60) vote supermajority; however, with only a 52-48 Republican majority in the Senate, there is very little margin for error. Moreover, the reconciliation process presents its own challenges, because under the relevant Senate rules, it cannot increase deficits beyond a 10-year budget window (this is the reason why the Bush tax cuts expired after 10 years.)

Obviously, the tax reform process is in the early stages, but individuals contemplating estate planning strategies should carefully consider the uncertain legislative landscape. We will continue to monitor and report on developments in Washington. In the meantime, strategies which prioritize flexibility without triggering tax consequences (*e.g.*, estate plans incorporating disclaimer provisions and grantor retained annuity trusts) continue to be a wise choice for most high net worth individuals. Please reach out to any member of our Individual Client Services team to discuss the options most appropriate for your situation.

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