
Hughes Hubbard & Reed

The Trump Administration Tax Reform Plan

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April 27, 2017 - On April 26, 2017, Treasury Secretary Steven Mnuchin and National Economic Council Director Gary Cohn announced the Trump administration's plan for tax reform billed as "the biggest individual and business tax cut in American history." The outlined plan is summarized below.

Individuals

- Reduces 7 tax brackets to 3 tax brackets with 10%, 25% and 35% rates
- Doubles the standard deduction
- Eliminates personal itemized deductions (including the deduction for state and local income taxes) other than the mortgage interest and charitable gift tax deductions
- Repeals the 3.8% Medicare tax on net investment income, thereby returning the capital gains and qualified dividend income tax rate to 20%
- Repeals the alternative minimum tax
- Provides unspecified tax relief for families with child and dependent care expenses
- Repeals the estate tax

Businesses

- Lowers the corporate tax rate to 15%
- Provides a similar reduction to 15% for pass-through entities
- Introduces a "territorial tax" system under which U.S. companies would not be subject to tax on their foreign earnings
- Imposes a one-time tax on unrepatriated pre-enactment offshore earnings

It appears that the plan would result in a substantial reduction in tax revenue, with the result that its provisions would have to sunset in ten years in order to be enacted through reconciliation procedures. The plan does not provide for a border adjustment tax, elimination of interest deductions for corporations, or immediate expensing of capital expenditures, all of which were features of last summer's House Republican tax reform blueprint. The

one page outline that was released was light on details, including how the one-time tax on unrepatriated earnings would be implemented (and at what rate) and whether the reduced pass-through rate applies to certain businesses (e.g., service businesses such as accounting and law firms and investment managers).

We anticipate that the Trump tax reform proposal will undergo a significant evolution as its details are fleshed out and legislation is introduced and moves through the House and Senate. The Trump administration has promised a series of listening sessions with stakeholders during the month of May. Hughes Hubbard's tax team will be closely monitoring developments on behalf of our clients and friends and will provide updates as details regarding the Trump administration's tax reform plan become available.

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