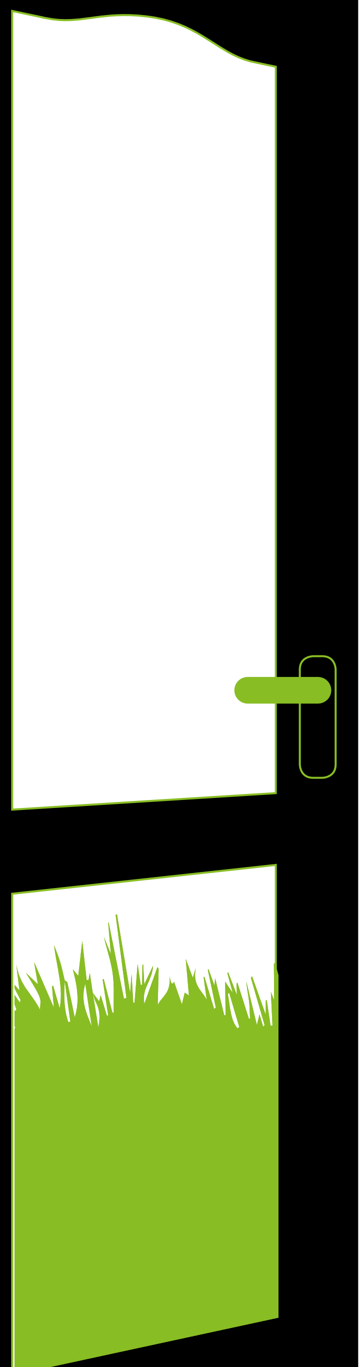
Post-election tax policy update

On November 8, the nation elected Donald Trump as its forty-fifth president and in so doing handed him significant authority over federal tax law and regulations. The election of a new president typically ushers in the prospect of significant policy changes and along with it an awareness of the complexity involved as proposals are released, debated, modified, and, in some cases, enacted. From the standpoint of tax policy, however, it is unclear whether the tax code changes that Trump has envisioned will be enacted into law in their current form.



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This lack of clarity could be due in part to the fact that in the months leading up to the election tax policy never really emerged as a top-tier issue on the campaign trail or in the general media. To be sure, Trump and his Democratic challenger Hillary Clinton acknowledged the importance of tax policy and each developed proposals to show how they hoped to reshape the tax code in their respective administrations. But Trump, like Clinton, generally addressed tax issues only in broad strokes. The proposals he discussed in his speeches and position papers in many cases lack technical details to explain how specific provisions would operate, and we may not see any fully fleshed-out proposals until his administration sends its first tax-and-spending plan to Congress in 2017.

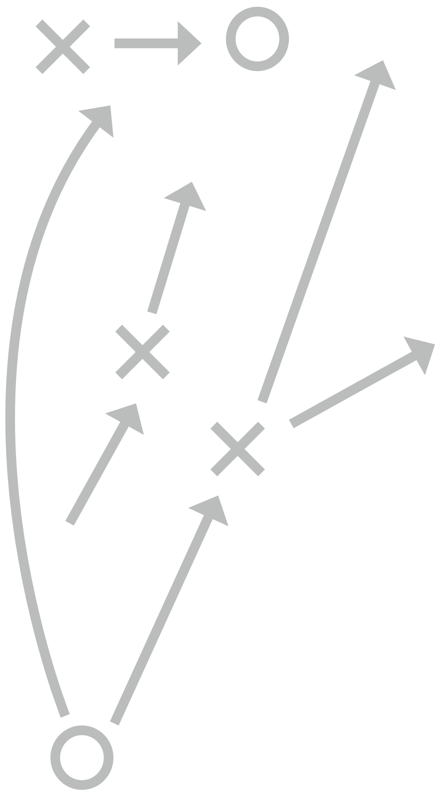
In some ways, Trump's tax policy platform is a work in progress. He released his original tax reform plan in September 2015, well before he had won the GOP nomination. That plan was criticized by Democrats, as well as some Republicans, for being too costly—the nonpartisan Tax Policy Center estimated the plan could lose nearly $10 trillion in revenue over the next decade—and for targeting its tax reductions primarily at upper-income households. More recently, he has attempted to recalibrate his plan in an effort to make it less costly and target its benefits on the individual side more toward the middle class.

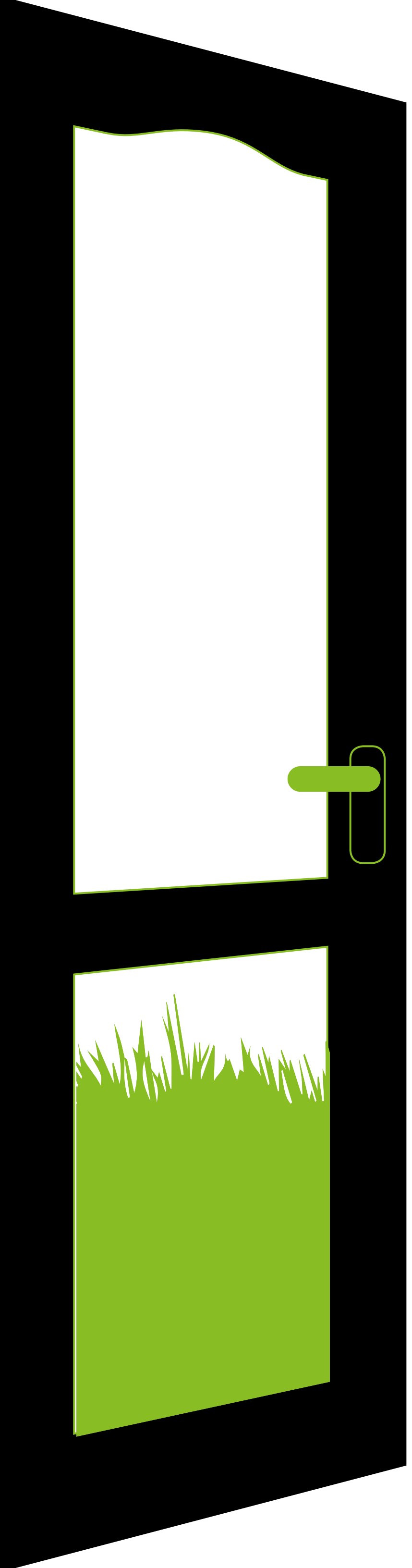
This lack of clarity could be due in part to the fact that in the months leading up to the election tax policy never really emerged as a top-tier issue on the campaign trail or in the general media.

A familiar playbook

Based on the public statements Trump has made regarding tax policy, two things seem apparent. First, he appears intent on changing the nation's tax laws by working within the confines of the current income tax system rather than attempting to move toward a consumption-based tax or other alternative system.

Second, the changes he is likely to propose once in office largely reflect the Republican Party orthodoxy of lowering tax rates for business and individual taxpayers while simultaneously broadening the base through limiting—or in some cases eliminating—some longstanding tax deductions, credits, and incentives.





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Working with a Republican Congress

Trump's goal of reforming the tax code likely will be made easier by the fact that Republicans will control the House of Representatives and the Senate in 2017. But the president-elect and Republican congressional leaders do not necessarily walk in lockstep on all issues related to tax reform. House Republicans unveiled a tax reform "blueprint" this past June which they intend to develop into a formal legislative proposal that they hope to move through the chamber next year. Although Trump's plan and the blueprint overlap in some key areas—such as individual tax rates—they differ in others.

Moreover, the GOP will have smaller majorities in both chambers in the incoming 115th Congress than it currently enjoys. In the Senate, Republicans remain well short of the 60-vote threshold needed to avoid the threat of a Democratic filibuster and advance controversial legislation. If Trump and Republican lawmakers come to an accord on tax reform, they conceivably could take advantage of the "budget reconciliation" process to sidestep Democratic opposition. But that option involves some very real policy and procedural challenges. If Republicans opt not to use reconciliation, they likely would need to work with Senate Democrats to ensure that legislation can move through that chamber.

The discussion that follows looks at where President-elect Trump stands on key tax policy issues based on the positions he has articulated in his public statements and on his campaign website, as well as details published by the Tax Policy Center and the Tax Foundation—two nonpartisan think tanks—based on information from campaign officials. It also looks beyond Trump's campaign platform to consider how the make-up of Congress in 2017 could affect his ability to get his tax agenda enacted into law.

Ordinary income rates and brackets

Throughout the campaign, Trump called for compressing the number of individual income tax brackets from seven under current law to three and for reducing the top rate from its current-law level of 39.6 percent. His original 2015 tax plan called for brackets of 10 percent, 20 percent, and 25 percent. In his speech at the Detroit Economic Club this August, Trump modified his position and called for rate brackets of 12 percent, 25 percent, and 33 percent, as proposed in the House GOP blueprint.

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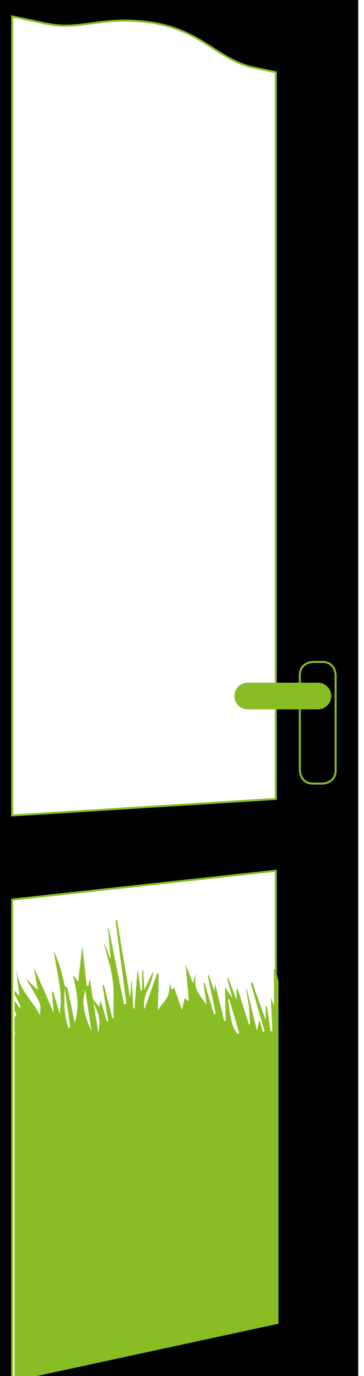

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The campaign added more detail to this proposal in September, when it announced that for married taxpayers filing jointly, the 12 percent bracket would apply to taxable income up to $75,000, the 25 percent bracket would apply to taxable income between $75,000 and $225,000, and the 33 percent bracket would apply to taxable income over $225,000. For single filers, the bracket thresholds would be half of these amounts. Based on the entry points for these brackets, certain taxpayers could find their ordinary income taxed at a higher rate under Trump's plan than under current law. (See the table on page 77 for details on how Trump's proposed rates and brackets for ordinary income compare to current law.)

The GOP tax reform blueprint does not specify income thresholds for its proposed rate brackets.

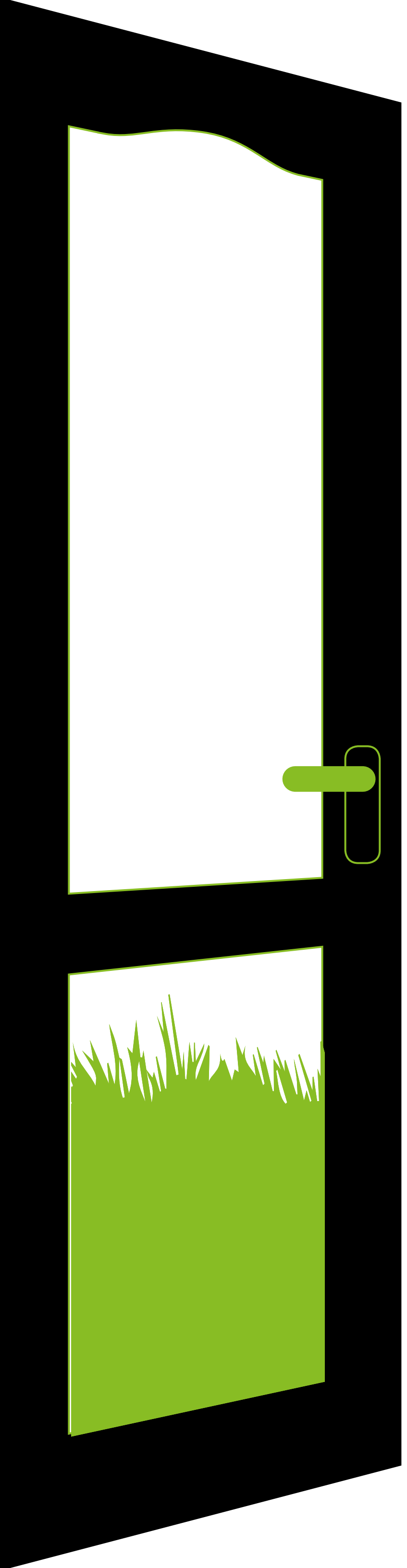
Medicare Hospital Insurance tax repealed: Trump has called for repealing the Patient Protection and Affordable Care Act (PPACA). As a result, the current-law 0.9 percent Medicare Hospital Insurance tax on individuals with income over $200,000 and joint filers with income over $250,000 would be repealed.

Capital gain income tax

Trump's plan would retain the current-law preferential rate structure for income from long-term capital gains and qualified dividends. According to the details posted on Trump's website, the three rate brackets for long-term capital gains would correspond with his proposed brackets for ordinary income. Thus, taxpayers in the 12 percent ordinary income tax bracket would pay no tax on their realized capital gains; taxpayers in the 25 percent income tax bracket would face a capital gains rate of 15 percent; and taxpayers in the 33 percent income tax bracket would pay capital gains tax at the top rate of 20 percent. Based on the entry points for these brackets, certain taxpayers could find their capital gain and qualified dividend income taxed at a higher rate under Trump's plan than under current law. (See the table on page 78 for details.)

The House GOP blueprint calls for taxing long-term capital gains, qualified dividends, and interest as ordinary income, but subject to a 50 percent exclusion, which would result in a maximum effective tax rate of 16.5 percent.

Net investment income tax repealed: Under both the Trump plan and the House GOP blueprint, the current-law 3.8 percent net investment income tax on individuals with income over $200,000 and joint filers with income over $250,000 would be repealed.



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Passthrough income

Trump's position on the treatment of business passthrough income evolved over the course of the campaign. The original tax plan he released in 2015 proposed to reduce the top rate on passthrough business income to 15 percent—well below the current-law top rate of 39.6 percent and the proposed 25 percent top rate that would later be included in the House GOP blueprint. He likewise proposed a 15 percent top rate for corporate income.

The first sign of a shift in that position came in September of this year when a fact sheet released by the campaign in conjunction with a speech Trump gave at the Economic Club of New York reaffirmed his commitment to reducing the corporate tax rate to 15 percent but was silent on whether there would be a rate reduction of any kind for passthrough businesses. An updated fact sheet released shortly after the speech affirmatively stated that the 15 percent rate would be "available to all businesses, both small and large, that want to retain the profits within the business." That clarification, however, has sparked a debate among commentators over how to interpret the phrase "that want to retain the profits within the business."

A Trump policy advisor subsequently sought to clarify the candidate's position in comments to the press, stating that Trump's proposal would in fact allow passthrough entities to elect to be taxed as if they were corporations, thus letting them benefit from the lower business rate. However, owners of passthrough entities that make such an election would also be subject to a second layer of tax on distributions from the business—just as shareholders generally must pay tax on corporate dividends. (Under Trump's plan, dividends would be taxed at a top rate of 20 percent, and, as already noted, the 3.8 percent net investment income tax would be repealed.)

Certain small passthrough entities reportedly would be exempt from the second layer of tax, but it remains unclear as to where that threshold would be set and by what measure (for example, assets, gross income, etc.). The Trump campaign has indicated that those details would be worked out with Congress after the election.

These aspects of the proposal continue to generate questions within the tax policy community; however, the Trump team has not provided additional clarifications.

Anti-abuse rules: According to campaign staff, Trump's administration will work with Congress to develop anti-abuse rules to prevent passthrough business owners from attempting to recharacterize wage income—subject to a top rate of 33 percent under his plan—as more lightly taxed business income. As a point of comparison, the House Republican blueprint—which similarly calls for divorcing the rate on passthrough business income from the top individual rate—states in general terms that passthrough entities would pay or be treated as having paid reasonable compensation to their owner-operators, which would be deductible by the business and subject to tax at the graduated rates for families and individuals. The blueprint does not elaborate on what would be considered "reasonable compensation."

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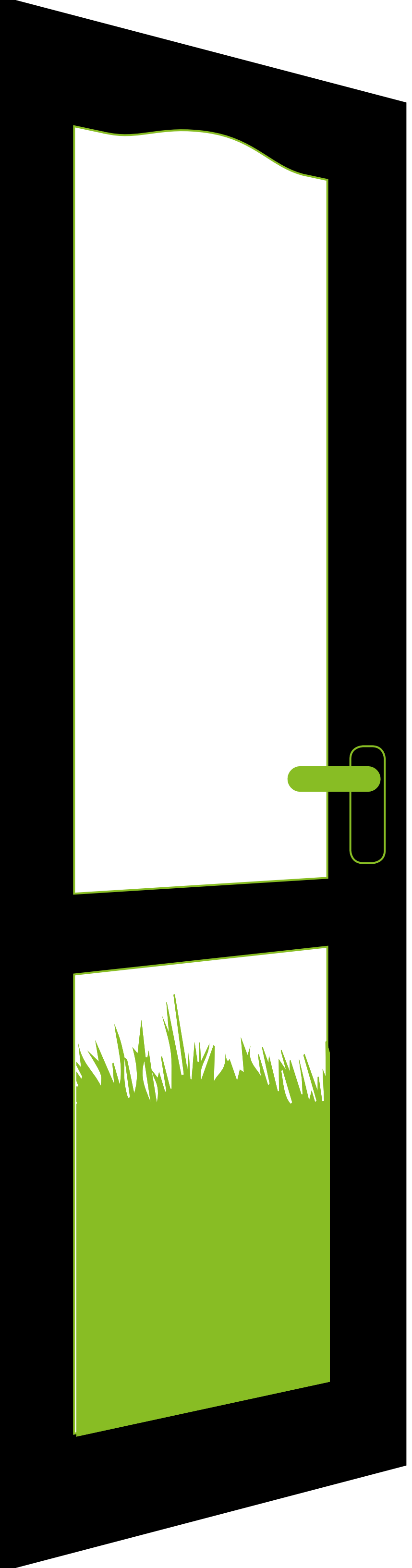

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Carried interest income

Trump has consistently called for taxing income from carried interests as ordinary—therefore subject to his proposed top rate of 33 percent—rather than capital gain.

Because his plan appears to allow for some passthrough business income to be taxed at just 15 percent, however, some commentators have suggested that recipients of carried interests might attempt to restructure these arrangements to classify the income as business income, resulting in a lower total tax rate than the 23.8 percent long-term capital gains rate they pay on carried interest today. As already noted, Trump and his advisors have stated that his administration would work with Congress to propose anti-abuse rules, but they have so far offered no specifics on what form those rules might take.

The House GOP blueprint does not propose changes to the tax treatment of carried interests, so presumably they would continue to be taxed as capital gains; however, as already noted, the top effective rate on long-term capital gain income under the blueprint would be reduced to 16.5 percent from 23.8 percent under current law.

Itemized deductions

Throughout the campaign, Trump has called for limiting or repealing many itemized tax deductions to help offset the cost of his proposed reductions in individual tax rates. His initial proposal, announced as part of his 2015 tax plan, called for phasing out most itemized deductions and tightening the so-called "Pease" limitation while retaining the deductions for mortgage interest and charitable giving in their current form. But he modified his position in September, proposing instead to cap itemized deductions at $200,000 for joint filers and $100,000 for single filers.

The House GOP blueprint calls for retaining the deductions for mortgage interest and charitable giving, but suggests that taxwriters may consider unspecified modifications in the future to make these deductions "more effective and efficient." It also proposes to modify the incentives to save for retirement and higher education. Most other incentives and deductions would be repealed.

Standard deduction

Trump has consistently called for a significant expansion in the standard deduction to simplify the tax code and reduce the number of taxpayers who have to itemize. His 2015 plan proposed to increase the standard deduction to $50,000 for joint filers and $25,000 for individuals. But he has since narrowed that proposal to $30,000 for joint filers and $15,000 for individuals. He also now calls for eliminating personal exemptions and the head-of-household filing status. According to some analysts, the net effect of those changes will be higher taxes for certain middle-class families. The Trump campaign has not directly acknowledged that but has indicated Congress would be instructed to prevent such an outcome.

The House GOP blueprint calls for consolidating the standard deduction and personal exemption into one larger standard deduction of $12,000 for single taxpayers, $18,000 for single taxpayers with a child, and $24,000 for married filers.

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The Trump campaign announced an entirely new set of tax breaks specifically targeting families, including a new above-the line deduction for taxpayers facing child care and elder care expenses, and a new tax-preferred savings account to encourage families to set aside funds for caregiving expenses.

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Trump has consistently called for repeal of the individual alternative minimum tax, as does the House GOP blueprint.

Estate tax

Trump also has consistently called for repealing the estate, gift, and generation-skipping transfer taxes. However, in a significant change from the original plan, the campaign announced in September that Trump would tax capital gains on appreciated assets held at death to the extent such gains exceed $10 million. It is unclear whether the $10 million threshold would apply per person or per couple.

Without elaborating, the tax policy platform on Trump's website also states that, in order to prevent abuse, "contributions of appreciated assets into a private charity established by the decedent or the decedent's relatives will be disallowed."

The House Republican blueprint calls for repealing the estate tax and generation-skipping transfer tax outright.

Family tax provisions

Also in September, the Trump campaign announced an entirely new set of tax breaks specifically targeting families, including a new above-the line deduction for taxpayers facing child care and elder care expenses, and a new tax-preferred savings account to encourage families to set aside funds for caregiving expenses.

Deduction for child care/elder care expenses: According to his campaign website, Trump would provide an above-the-line deduction for child care expenses for up to four children per family, from birth to age 13, with the deduction amount capped at "the average cost of child care" based on the child's age and state of residence. The deduction would be available to itemizers and non-itemizers, and would apply to families that use paid child care providers, as well as families that rely on a stay-at-home parent or an unpaid relative to meet their child care needs.

The deduction would be limited to couples earning up to $500,000 a year and individuals earning up to $250,000. To assist families with no income tax liability, the proposal calls for a "spending rebate" through the Earned Income Tax Credit that would be capped at "half of the payroll taxes paid by the taxpayer (based on the lower-earning parent in a two-earner household)" and subject to an income limitation of $31,200 for individuals and $62,400 for joint filers.

A similar above-the-line deduction would be available to families who incur expenses for home care or adult day care for an elderly dependent relative. The deduction would be capped at $5,000 a year, indexed annually for inflation.

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Dependent Care Savings Accounts: In addition to the new deduction, Trump proposes the creation of tax-preferred Dependent Care Savings Accounts (DCSAs), which according to a campaign fact sheet would allow families to "set aside extra money to foster their children's development and offset elder care for their parents or adult dependents." The fact sheet indicates the accounts would be "available to everyone" and would "allow both tax-deductible contributions and tax-free appreciation year to year."

DCSAs would be established for the benefit of specific individuals. Those established for a minor child—including an unborn child—could "be applied to traditional child care, after-school enrichment programs, and school tuition." Accounts established for an elderly dependent could "cover a variety of services, including in-home nursing and home care."

Contributions to a DCSA would be capped at $2,000 a year from all sources, which according to the campaign would include the parents of a minor child, the individual establishing an elder care account, immediate family members of the account owner, and the employer of the account owner. Rollovers of accumulated account balances would be permitted from year to year. Contributions to a DCSA established for a child would not be permitted once the child reaches age 18; however, any funds remaining in the account when the child reaches 18 could be used to pay for education expenses.

Lower-income parents who open a DCSA for a minor child would receive a government match for 50 percent of the first $1,000 deposited per year. The campaign also notes that parents who qualify for the Earned Income Tax Credit (EITC) would be able to "check a box [on their tax returns] to directly deposit any portion of their EITC into their Dependent Care Savings Account."

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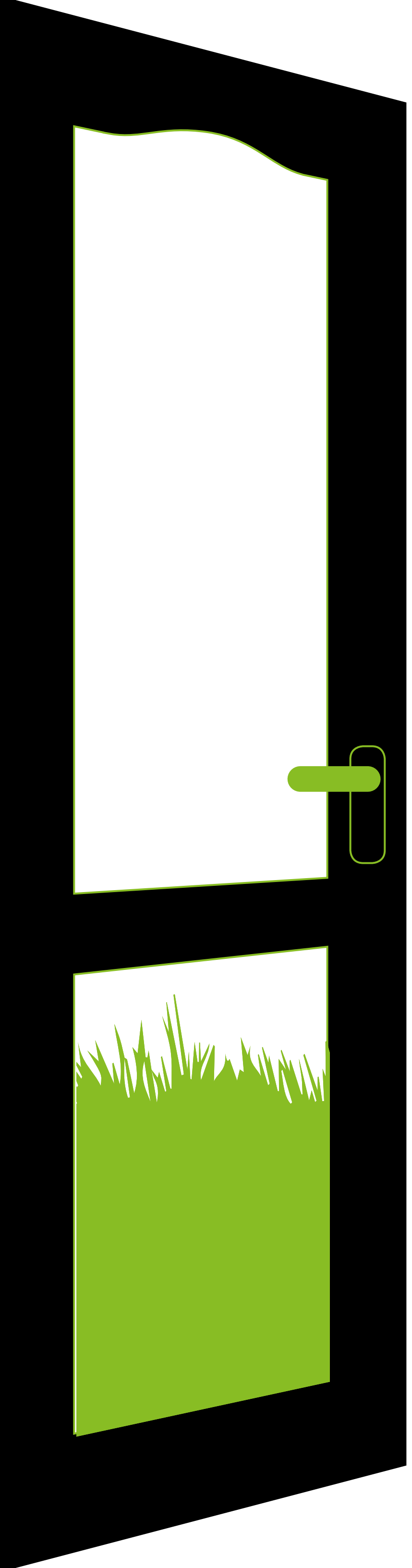

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The politics of policymaking

At first glance, the fact that Donald Trump is headed to the White House and will be working with a Republican Congress in 2017 would appear to clear a path for possible action on tax reform; nonetheless, some obstacles are likely to remain.

Trump's tax plan, which adopts a traditional Republican approach of broadening the base and lowering the rates, may present practical difficulties. As we've noted, the original version, which was introduced in 2015, has been recalibrated in recent months to address concerns that it would substantially add to the deficit. But according to an analysis by the Tax Policy Center, his revised tax plan still would decrease federal receipts by an estimated total of $6.15 trillion (net) between 2016 and 2026 based on a traditional "static" scoring model. Under so-called "dynamic" scoring that takes into account certain macroeconomic feedback effects of the plan on the economy and in turn on federal revenue levels, the Tax Policy Center estimates a slightly smaller 10-year drop in federal receipts of between $5.97 trillion and $6.03 trillion. (The Center analyzed the plan using two dynamic models).

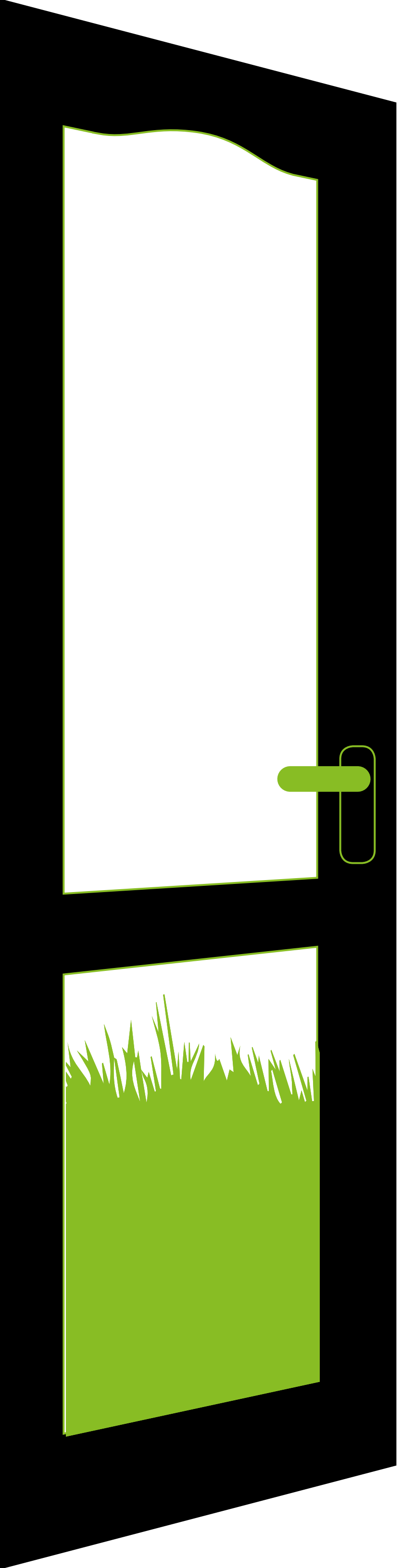
At first glance, the fact that Donald Trump is headed to the White House and will be working with a Republican Congress in 2017 would appear to clear a path for possible action on tax reform; nonetheless, some obstacles are likely to remain.

For its part, the Tax Foundation cites a range of estimates under both its static and dynamic models, noting some of the uncertainties around Trump's proposals for taxing business passthrough income. Based on available information, the Tax Foundation estimates the 10-year revenue loss under Trump's plan to be between $4.37 trillion and $5.91 trillion under its static model. That drops to between $2.64 trillion and $3.93 trillion when macroeconomic feedback is factored in.

Given that federal receipts over the next decade are projected to total roughly $42 trillion, Trump's plan as it is currently structured would require either a very large reduction in federal spending or a significant increase in the deficit.

Where congressional leaders stand: Of course, tax policy is not written exclusively by the president. Congress will want to have its say; and the truth is that lawmakers do not speak with one voice.

House Republicans—The tax reform blueprint released in June of this year by Speaker Paul Ryan, R-Wis., and Ways and Means Committee Chairman Kevin Brady, R-Texas, is similar to Trump's plan in its calls for significant rate cuts for business and individual taxpayers. But the blueprint differs markedly from Trump's plan in other ways: most notably, the blueprint envisions a transition to a territorial system for taxing foreign-source income of US multinationals (something Trump's original tax plan did not include and which his revised plan did not address), coupled with a destination-based cash flow tax based on jurisdiction of consumption and not production.



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The blueprint as released lacks sufficient detail to allow for an accurate revenue score. It probably will not be revenue neutral—under a static estimating model—when it is fully fleshed out; however, it is intended to have relatively little revenue loss when the dynamic effects on tax receipts of faster economic growth are included.

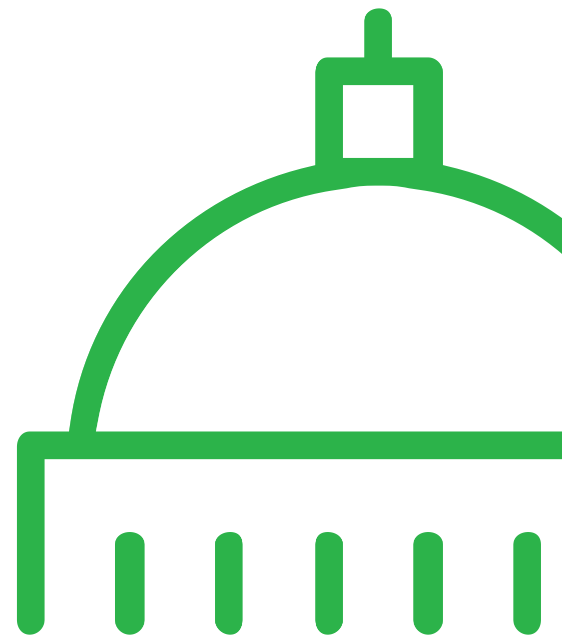
Senate Republicans—In the Senate, Majority Leader Mitch McConnell of Kentucky has not been nearly as strong an advocate of tax reform as House Speaker Ryan, who cites the issue as one of his top priorities.

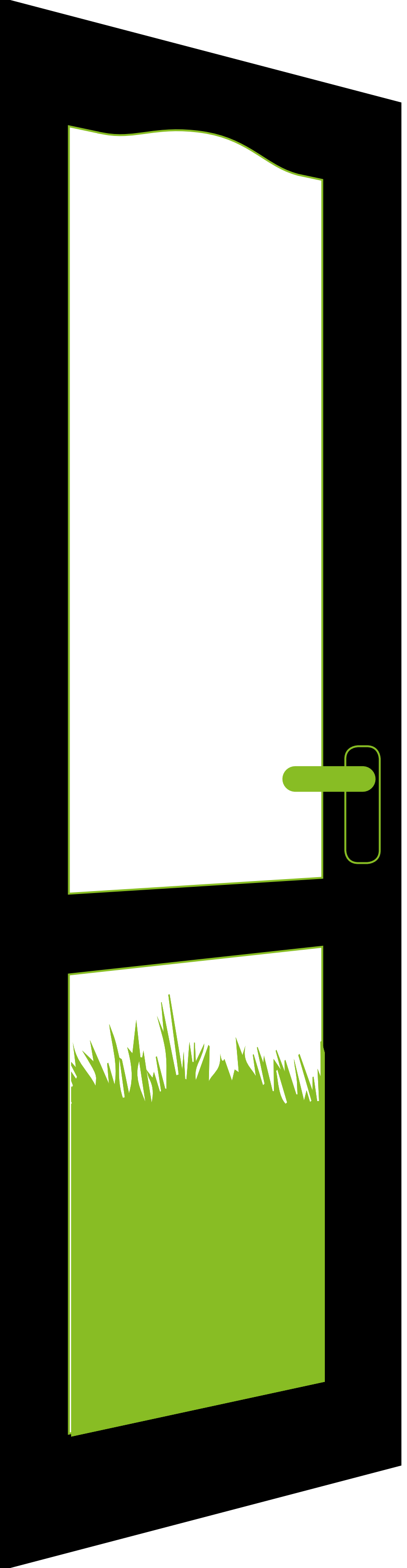
Finance Committee Chairman Orrin Hatch, R-Utah, supports comprehensive tax reform. With that goal out of reach under President Obama, however, Hatch has spent much of this past year working on an alternative approach: a corporate integration plan that is expected to propose lowering the corporate tax rate by combining a dividends paid deduction with a withholding tax on dividend and interest payments. The details of the plan—which Hatch may release later this year as a discussion draft—have not yet been made public. Although his Republican colleagues have yet to embrace this approach, Hatch could continue to make the case that his incremental proposal is a meaningful improvement to the tax code and not incompatible with potential broader reform further down the road.

Senate Democrats—Because Republicans did not win a 60-vote supermajority in the Senate, they may need to compromise with Democrats if they want to move significant legislation through the chamber. And the two Democratic lawmakers likely to exert the most influence on tax policy are long-time Finance Committee members Ron Wyden of Oregon and Charles Schumer of New York.

Wyden, the ranking Democrat on the Finance Committee, has urged Congress to act in the short term on the issue of inversions, but he has also been working on a broader vision of tax reform over the last several years. He unveiled a comprehensive tax reform plan in 2010 and again in 2011—both times with a Republican co-sponsor—when he was just a Finance Committee "back bencher." This year, Wyden released three targeted tax reform discussion drafts aimed at (1) streamlining depreciation rules to move from asset-by-asset tracking to a simplified "pooling approach"; (2) simplifying the taxation of certain derivative contracts to provide for mark-to-market treatment at the end of each year; and (3) tightening rules related to tax-favored retirement accounts—especially for the wealthy—by, among other things, capping contributions to certain high balance accounts.

For his part, Schumer—who will become the Senate Democratic leader when the new Congress convenes—has been active primarily in the area of business tax reform. (In 2015, he attempted to negotiate a deal with Paul Ryan, who at the time was chairman of the House Ways and Means Committee, for a business tax reform package that included revenue for infrastructure spending. Schumer also served as co-chair of the Finance Committee's bipartisan working group on international tax reform.)





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House Democrats—House Democratic leaders generally have staked out a position on tax reform similar to that of Democratic presidential candidate Hillary Clinton. Ways and Means Committee ranking Democrat Sander Levin of Michigan, for example, is a vocal supporter of legislation to tighten current-law rules governing inversions and backs increasing taxes on large corporations and wealthier individuals, but he has not developed a comprehensive tax reform plan of his own that would serve as a counterpoint to the House GOP blueprint. Interestingly, House Minority Leader Nancy Pelosi, D-Calif., recently told reporters that there is general agreement for lowering corporate tax rates and closing perceived "loopholes," but she has not taken the lead in building a case for comprehensive tax reform within her caucus, and it is unlikely she would push her members to support broader tax reform as envisioned by either President-elect Trump or House Republicans.

Is budget reconciliation an option?: House Speaker Ryan indicated in the run-up to the election that in the case of a Republican administration, he will look to use the budget reconciliation process to move targeted tax changes—a tactic that would allow Republicans in the 115th Congress to pass certain legislation in the Senate with only 51 votes and without having to worry about winning Democratic cooperation. (This is the same process that Democrats invoked in 2010—when they lacked a filibuster-proof Senate majority—to pass the Patient Protection and Affordable Care Act and that Republicans used in 2001 and 2003 to pass the Bush-era tax cuts.)

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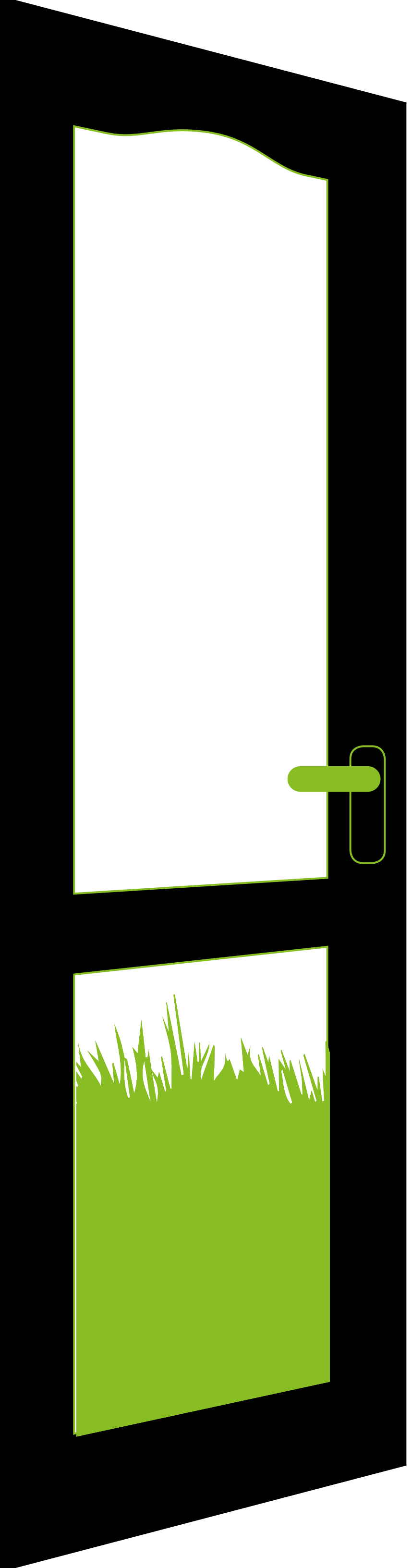
However, reconciliation comes with major procedural and policy challenges, so getting tax reform done this way is not a sure thing. To begin with, congressional Republicans would have to agree on a budget resolution—something they were not able to accomplish in 2016—that includes reconciliation instructions on tax reform.

But perhaps the greater challenge arises from the likelihood that a GOP-only tax reform will increase the deficit—that is, it will include more tax cuts than offsetting base broadening. Generally, under current reconciliation rules, bills that are not deficit-neutral after the first decade must sunset in order to avoid a 60-vote threshold for passage in the Senate. This means Republicans could be forced to (1) scale back their vision of reform, (2) enact "temporary" tax reform (something that would be difficult to do from the standpoint of drafting legislative language and transition rules and would likely frustrate individuals and businesses who are affected by the rule changes), or (3) find a procedural avenue around that hurdle. Recall that the 2001 and 2003 tax cuts were enacted under reconciliation, leading to moments of high anxiety for taxpayers between the time those provisions approached their scheduled expiration at the end of 2010 and the time they were finally addressed in a permanent way in the early days of 2013. Those anxieties would be multiplied if it is not just marginal rates but the entire structure of the tax code that is in danger of sunsetting. Despite these concerns, though, reconciliation may be an imperfect alternative that Republicans are willing to pursue, given the difficulty in reaching bipartisan consensus on tax reform.



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If reconciliation is out, is compromise possible?: Without using reconciliation, the 60-vote threshold to avoid a Democratic filibuster in the Senate would require some level of bipartisan compromise if any legislation is to be enacted. House Ways and Means Committee Chairman Brady is among those who have recently expressed a preference for finding common ground so that tax reform can proceed on a bipartisan basis. But one question is whether Senate Democrats would find it in their interest to help pursue tax reform or whether they would think themselves better served by blocking key agenda items of the Trump administration and protecting potentially vulnerable Democratic incumbents in the 2018 mid-term elections.

A second question is whether the House Freedom Caucus—a vocal minority within the GOP Conference that in the past has been skeptical of leadership-driven compromises with Democrats—will pressure leadership to avoid bipartisan dealmaking, even if the alternative is gridlock. The Freedom Caucus will be a larger presence in the 115th Congress both in terms of raw numbers and as a share of the GOP's majority in the House, and its influence is likely to play a role as Speaker Ryan contemplates his policy agenda and his own political future.

More clarity likely as budget process moves forward

The path forward for action on tax reform next year will become clearer as the Trump administration sends a detailed tax-and-spending blueprint for fiscal year 2018 to Capitol Hill, Congress decides how—or whether—to proceed on specific proposals, and the Joint Committee on Taxation staff develops official revenue estimates of their economic impact.

Exactly when the budget process for fiscal year 2017 will formally kick off is currently unclear. Federal law requires every presidential administration to submit its budget proposal for the coming fiscal year by the first Monday in February, which means the budget for fiscal year 2018 would be due on February 7, 2017. However, that deadline frequently slips—especially in years when a new president takes office. President Bill Clinton, for example, submitted his first budget blueprint (for fiscal 1994) on April 8, 1993; President George W. Bush submitted his first budget (for fiscal 2002) on April 9, 2001; and President Obama submitted his first budget (for fiscal 2010) on May 7, 2009.

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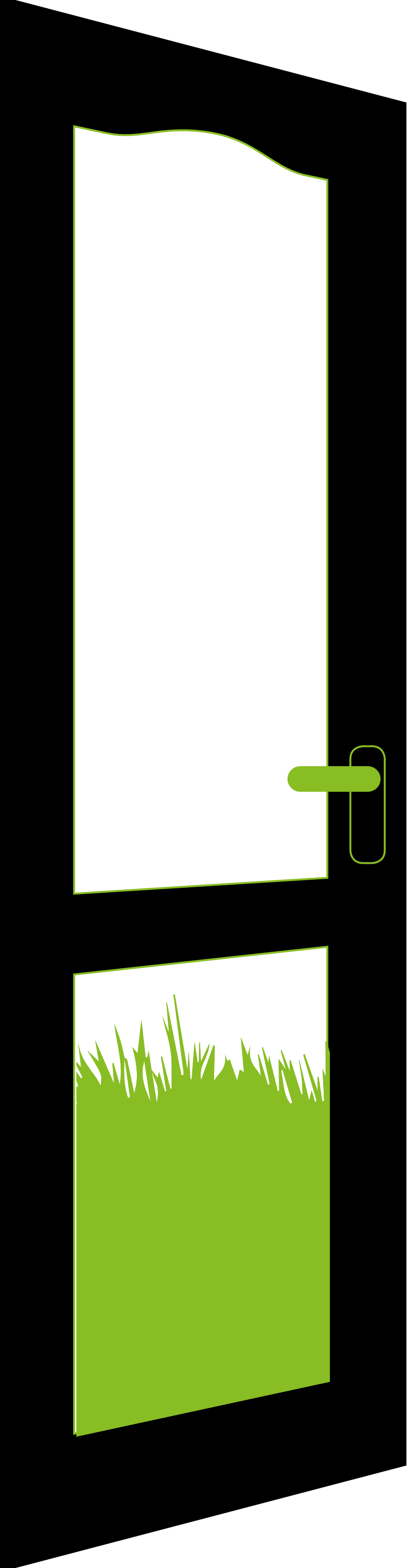
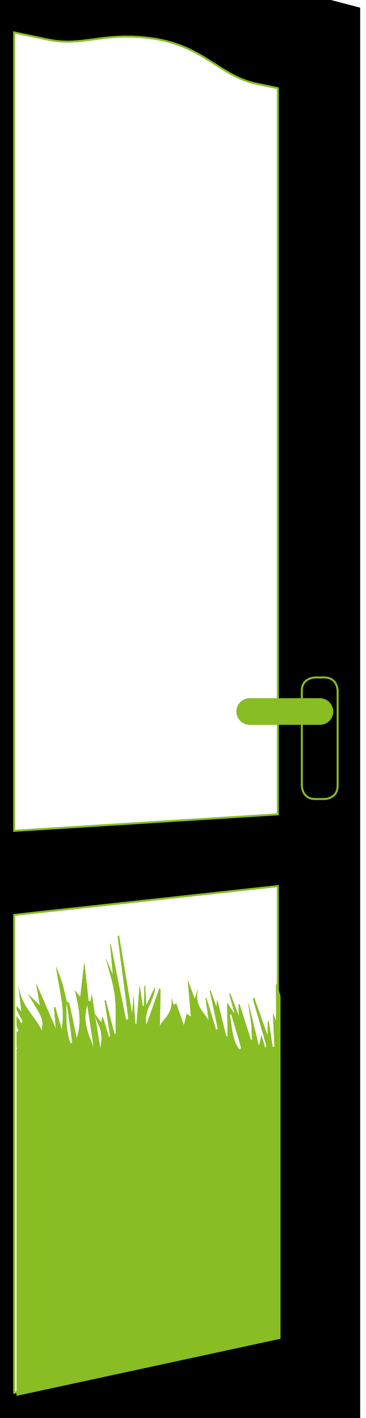


Overview of Trump's tax plan: Individual provisions

The following table highlights the individual provisions in Donald Trump's tax plan and shows how they stack up against current law and the proposals in the House Republican tax reform blueprint released on June 24, 2016. Proposals marked with an asterisk were included in the House GOP's health care reform blueprint released on June 22, 2016. ***Highlighted*** material indicates discrete proposals from Senate Finance Committee leaders Orrin Hatch, R-Utah, and Ron Wyden, D-Ore., that also could influence the tax policy debate next year.

Selected individual provisions

Provision	Current law	Trump	House GOP blueprint
Income tax rates	• Seven brackets: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% • Additional 0.9% Medicare Hospital Insurance tax on individual filers with AGI > $200,000 and joint filers with AGI > $250,000	• Three brackets: 12%, 25%, and 33% • Repeal 0.9% Medicare Hospital Insurance tax	• Three brackets: 12%, 25%, and 33% • Repeal 0.9% Medicare Hospital Insurance tax*
Top passthrough rate	39.6%	15% rate on passthrough business income "available to all businesses, both small and large, that want to retain the profits within the business" Trump campaign has explained that • Passthrough businesses may elect to be taxed at the 15% corporate rate or under the individual side of the code • Large passthroughs electing the 15% rate would be subject to second-level tax on distributions to owners, but small ones would not (no details on threshold for determining when or how second-level tax would apply) • Anti-abuse provisions to prevent taxpayers from misclassifying wage income as business passthrough income to take advantage of 15% rate would be negotiated with Congress	• Top rate of 25% will apply to active business income of sole proprietorships and passthrough entities (partnerships, LLCs, and S corps) • Passthrough entities will pay or be treated as having paid reasonable compensation to their owner-operators, which will be deductible by the business and will be subject to tax at the graduated rates for families and individuals



Post-election tax policy update

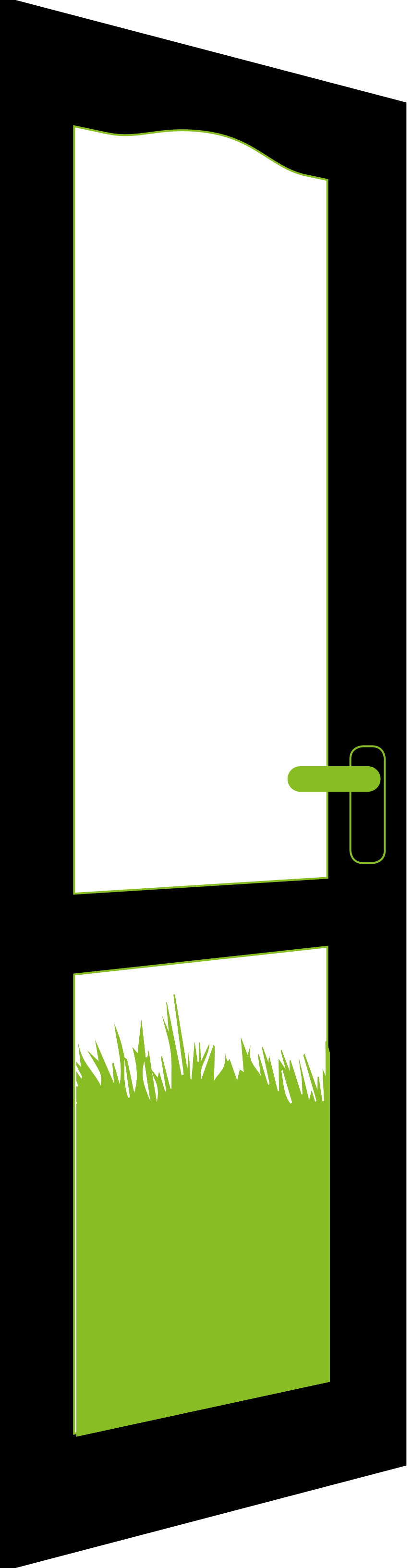
Overview of Trump's tax plan: Individual provisions

Selected individual provisions			
Provision	**Current law**	**Trump**	**House GOP blueprint**
Interest income	Taxed as ordinary income	No changes specified; presumably taxed as ordinary income	Taxed at ordinary rates with 50% exclusion (effective tax rates of 6%, 12.5%, and 16.5%) ***Pending Hatch proposal:*** *Corporate integration plan would continue to exempt interest payments from taxation at the entity level but would impose tax on interest income—including income earned by recipients that are exempt from tax under current law—at the individual level at ordinary income rates*
Capital gain and qualified dividend income	• Short-term capital gains (held < 1 year) taxed at ordinary income rates • Long-term capital gains (held ≥ 1 year) taxed at preferential rates, with top rate of 20% • Additional 3.8% net investment income tax applies to individual filers with AGI > $200,000 and joint filers with AGI > $250,000 • Dividends taxed as ordinary income, while qualified dividends are taxed at the preferential capital gains rates	• Retain current-law rates and brackets for capital gain and dividend income • Repeal 3.8% net investment income tax	• Taxed at ordinary rates with 50% exclusion (effective tax rates of 6%, 12.5%, and 16.5%) • Repeal 3.8% net investment income tax* ***Pending Hatch proposal:*** *Corporate integration plan would (1) exempt dividends from taxation at the entity level (likely via a dividends-paid deduction) and (2) impose tax on dividend income—including income earned by recipients that are exempt from tax under current law—at the individual level at ordinary rates*
Carried interest income	Taxed as long-term capital gain	Tax as ordinary income (see details on proposed rates above)	No changes to the tax treatment of carried interest are specified, though the top effective rate on long-term capital gain income would be reduced to 16.5% from 23.8% (see additional details on capital gain income above)
AMT	Imposed on taxpayers who have certain types of income that receive favorable treatment, or who qualify for certain deductions that can significantly reduce the amount of regular income tax; subject to exemption amounts indexed annually for inflation	Repeal; treatment of accumulated AMT credits not specified	Repeal; treatment of accumulated AMT credits not specified

Overview of Trump's tax plan: Individual provisions

Selected individual provisions

Provision	Current law	Trump	House GOP blueprint
Estate tax	• Top rate: 40% • Exemption: $5.49 million per spouse for 2017 (adjusted annually for inflation) • Additional tax may apply to generation-skipping transfers	• Repeal, but appreciated assets held at death will be subject to capital gains tax to the extent they exceed $10 million • Disallow "contributions of appreciated assets into a private charity established by the decedent or the decedent's relatives"	Repeal estate tax and generation-skipping tax
Patient Protection and Affordable Care Act (PPACA) taxes	• 0.9% Medicare Hospital Insurance tax on individual filers with AGI > $200,000 and joint filers with AGI > $250,000 • 3.8% net investment income tax on individual filers with AGI > $200,000 and joint filers with AGI > $250,000	Repeal PPACA and the business and individual taxes enacted as part of that legislation	Repeal PPACA and the business and individual taxes enacted as part of that legislation
Treatment of employer-provided health care benefits	Exclude from income and payroll taxes	No changes specified	• Cap exclusion at unspecified threshold* • Provide a refundable credit to allow individuals without access to employer-provided health insurance to purchase insurance in the open market*
Treatment of life insurance contract "inside build-up"	Investment income on premiums credited under a life insurance contract not subject to current taxation; amounts received under a life insurance contract by reason of the death of the insured or with respect to an insured who is terminally ill or chronically ill are excludable from income	Unclear: 2015 tax plan proposed to "[phase] out the tax exemption on life insurance interest for high-income earners" but the issue has not been addressed in subsequent iterations of Trump's tax plan	No changes specified
Mortgage interest deduction	Itemizers may deduct mortgage interest on up to $1 million in acquisition indebtedness and up to $100,000 in home equity indebtedness	Cap itemized deductions at $200,000 for joint filers and $100,000 for single filers	Retain deduction; Ways and Means Committee will "evaluate options" to make the current-law deduction "more effective and efficient," but no future changes will affect existing mortgages or refinancings
Charitable giving deduction	Charitable contributions fully deductible for itemizers	Cap itemized deductions at $200,000 for joint filers and $100,000 for single filers	Retain but "develop options to ensure the tax code continues to encourage donations, while simplifying compliance and record-keeping and making the tax benefit effective and efficient"



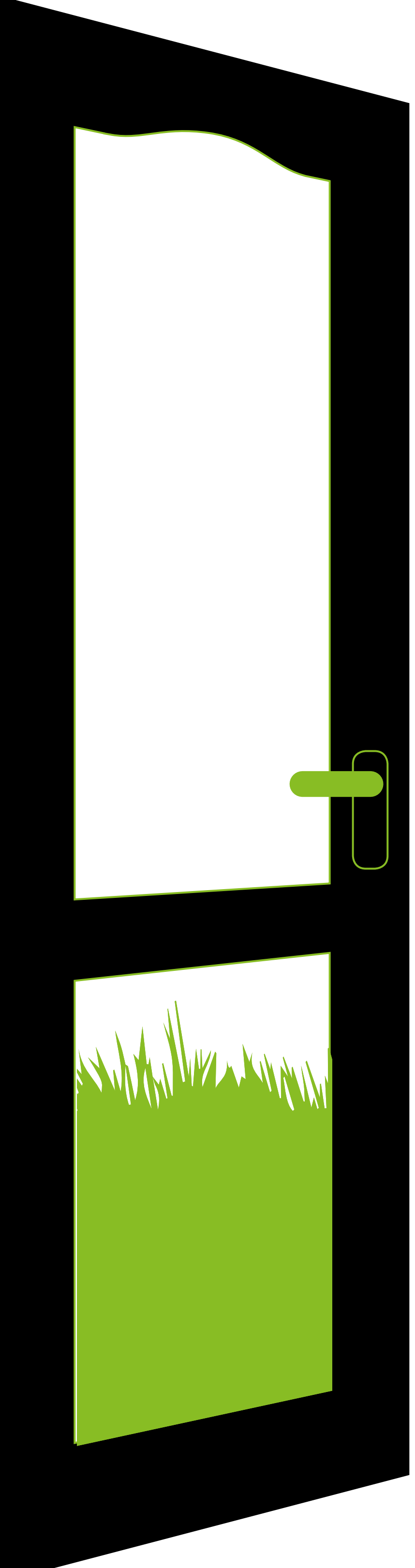
Overview of Trump's tax plan: Individual provisions

Selected individual provisions			
Provision	**Current law**	**Trump**	**House GOP blueprint**
State and local tax deduction	Itemizers may deduct state and local income taxes, or general sales taxes in lieu thereof	Cap itemized deductions at $200,000 for joint filers and $100,000 for single filers	Repeal
Standard deduction and personal exemptions; provisions for children and families	• Standard deduction: $6,350 for single individuals, $9,350 for heads of households, $12,700 for joint filers • Additional standard deduction: $1,250 for individuals who are elderly or blind • Personal exemptions for taxpayer, taxpayer's spouse, and any dependents: $4,050 for each personal exemption • Child tax credit: Refundable credit of $1,000 for each qualifying child under age 17, subject to phase-out (Deduction/credit amounts are those in effect for 2017)	• Increase standard deduction to $15,000 for single filers and $30,000 for joint filers • Eliminate personal exemptions and head-of-household filing status • Create new above-the-line tax deductions for child care and elder care expenses • Create new tax-preferred savings accounts to encourage families to set aside funds for child care and elder care expenses	• Consolidate standard deduction and personal exemption into one larger standard deduction of $12,000 for single taxpayers, $18,000 for single taxpayers with a child, and $24,000 for married filers • Consolidate personal exemption for children and child tax credit into a single $1,500 credit, $1,000 of which is refundable
Personal exemption phase-out (PEP) and limitation on itemized deductions (Pease)	PEP and Pease limitations apply for taxpayers with AGI exceeding certain thresholds	No changes currently specified (2015 plan called for "steepening the curve" of PEP and Pease)	Not specified (although the blueprint identifies these provisions as problems with the current tax code)
Higher education incentives	• Four higher education tax benefits — American Opportunity Tax Credit (AOTC), Hope Scholarship Credit, Lifetime Learning Credit, and qualified tuition deduction • Various deductions and exclusions for education assistance programs, interest paid on education loans, qualified tuition and related expenses, discharge of student loan indebtedness • Exception to additional 10% tax for early distributions from retirement plans and Individual Retirement Accounts used to pay for higher education expenses	No changes specified	Blueprint indicates the Ways and Means Committee will seek to streamline the credits, retaining incentives for both college and vocational study

Overview of Trump's tax plan: Individual provisions

Selected individual provisions

Provision	Current law	Trump	House GOP blueprint
Retirement savings incentives	Individuals may contribute to tax-preferred traditional and Roth IRAs, subject to contribution limits and income phase-outs, and to employer-sponsored plans such as 401(k)s, subject to maximum elective contribution limits	No changes specified	Retain current retirement vehicles; Ways and Means Committee will "work to consolidate and reform the multiple different retirement savings provisions in the current tax code to provide effective and efficient incentives for savings and investment," and also consider creation of new vehicles, such as a Universal Savings Plan ***Wyden draft proposal:*** *Prohibit additional contributions to Roth IRAs with balances over $5 million; eliminate Roth IRA conversions; generally require retirement account assets to be distributed within 5 years after account holder's death; expand savings opportunities for working families and younger individuals*



Post-election tax policy update

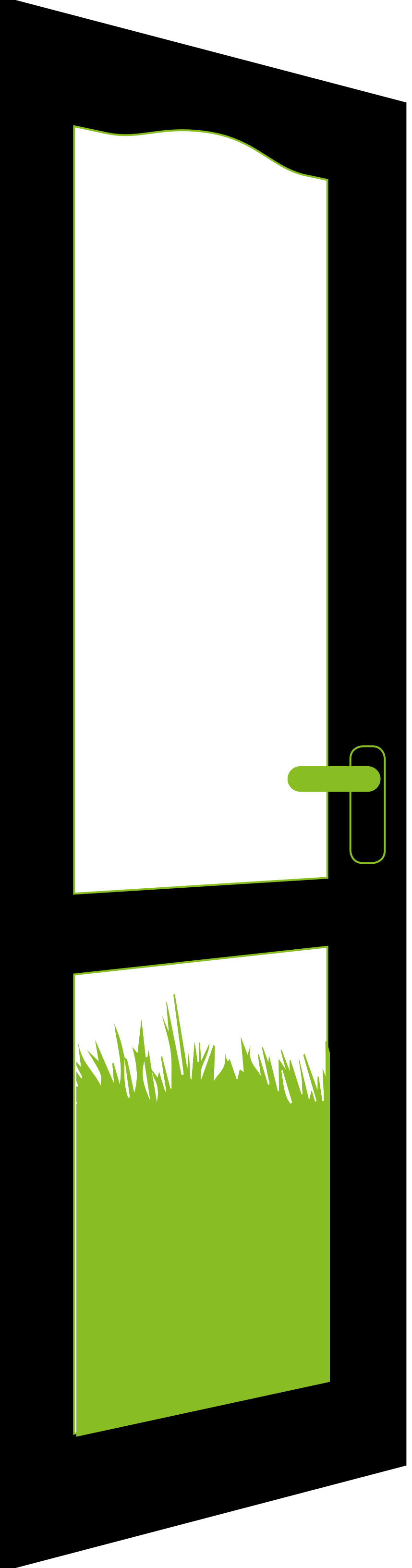
Trump's proposed individual rate brackets: Ordinary income

The table below compares the proposed marginal rates on ordinary income under the Trump plan — and the income thresholds at which those rates would apply — with current-law brackets and the inflation-adjusted income thresholds in effect for 2017. The House GOP tax reform blueprint, like the Trump plan, calls for three rate brackets of 12%, 25%, and 33%, but the blueprint does not supply beginning and ending points for the rate brackets and is not included in this comparison.

Trump ordinary rate brackets v. current law

	Single filers		Married-joint filers	
Rate[1]	Current law	Trump	Current law	Trump
10%	$0 to $9,325	—	$0 to $18,650	—
12%	—	$0 to $37,500	—	$0 to $75,000
15%	$9,326 to $37,950	—	$18,651 to $75,900	—
25%	$37,951 to $91,900	$37,501 to $112,500	$75,901 to $153,100	$75,001 to $225,000
28%	$91,901 to $191,650	—	$153,101 to $233,350	—
33%	$191,651 to $416,700	$112,501 and above	$233,351 to $416,700	$225,001 and above
35%	$416,701 to $418,400	—	$416,701 to $470,700	—
39.6%	$418,401 and above	—	$470,701 and above	—

[1] Current law imposes an additional 0.9% Medicare Hospital Insurance Tax on certain upper-income individuals. This tax would be repealed under the Trump plan.
Sources: Inflation-adjusted brackets in effect for 2016 listed in IRS Revenue Procedure 2016-55. Trump data from the candidate's website.



Trump's proposed individual rate brackets: Capital gain income

This table compares the proposed marginal rates on long-term capital gain income under the Trump plan — and the income thresholds at which those rates would apply — with current-law brackets and the inflation-adjusted income thresholds in effect for 2017. The House GOP tax reform blueprint calls for taxing capital gain income at ordinary rates with a 50% exclusion, but the blueprint does not supply beginning and ending points for the rate brackets and is not included in this comparison.

Trump capital gain rates and brackets v. current law

	Single filers		Married-joint filers	
Bracket[1]	**Current law**	**Trump**	**Current law**	**Trump**
0%	$0 to $37,950	$0 to $37,500	$0 to $75,900	$0 to $75,000
15%	$37,951 to $418,400	$37,501 to $112,500	$75,901 to $470,700	$75,001 to $225,000
20%	$418,401 and above	$112,501 and above	$470,701 and above	$225,001 and above

[1] Rates shown in this table do not reflect the 3.8% net investment income tax imposed on certain high-income individuals that is in effect under current law. (The net investment income tax would be repealed under the Trump plan.)
Sources: Current-law rates from IRS Publication 17 (2015), *Your Federal Income Tax*; inflation-adjusted brackets for 2016 from IRS Revenue Procedure 2016-55. Trump data from the candidate's website