

US tax overhaul

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US tax reform no longer seems to be a matter of 'if' but of 'when' and 'what'. Most experts still think that tax reform is a long and slow process so we should not expect to see sweeping change any time soon. However, we have already seen President Trump take quick and decisive action on other issues and tax reform is one of his campaign promises. President Trump said earlier this month that he would release the details of his administration's proposed 'phenomenal' tax reforms. We wait with bated breath but we already have some idea of what Trump and others would like to see achieved through a reform of the US tax system, which has not had a major reform since 1986.

On the individual tax side, we know that President Trump would like to simplify the tax brackets to three rates of 12%, 25% and 33%, the lowest of which is above the current lowest of 10% and the highest being lower than the current highest of 39.6%. Trump would also like to see the standard deduction raised to \$15,000 per person, but would limit itemized deductions to a capped amount. Trump has already begun to undermine the Affordable Care Act with his executive order in January that means the IRS will process returns even if someone has not marked whether they have health insurance. Trump promised to completely dismantle the Affordable Care Act and along with it would go the 3.8% Net Investment Income Tax. Finally, Trump would like to repeal the federal estate tax, but it would be replaced with a capital gains tax for estates over certain thresholds, similar to the system in Canada. Commentators willing to share their views have indicated that a repeal of the gift tax is unlikely.

On the corporate side, Trump has said that lowering the US corporate tax rate to 15% is a priority, especially since the US has one of the highest corporate tax rates (at 35%) among advanced economies. However, it is not all good news for US corporates with the proposal of a border adjustment tax of 25% on imports, which is heavily criticised by economists and companies alike.

It is also worth remembering that House Speaker Paul Ryan has his own tax reform proposals, which mostly align with President Trump's ideas, but there are definitely some mismatches. Without a crystal ball, it is impossible to say what will pass and what won't, which is leaving many of us wondering how to plan for the future. Put simply, we should plan for change.

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