

# Prospects for U.S. Tax Reform Under President Trump

The election of President Donald J. Trump, combined with Republican control of Congress, makes fundamental U.S. federal income tax reform more likely than at any time since the enactment of the Tax Reform Act of 1986. While the substance of any reform is uncertain, legislation may utilize elements from the House Republicans' "A Better Way" plan, released by House Speaker Paul Ryan (R-Wis) on June 24, 2016 ("House Blueprint"), and the tax plan proposed by President Trump on his website ("Trump Proposal").

	Current Law	House Blueprint	Trump Proposal
<b>Top Corporate Tax Rate</b>	<ul style="list-style-type: none"> <li>35% tax</li> </ul>	<ul style="list-style-type: none"> <li>20% tax (with corporate AMT eliminated)</li> </ul>	<ul style="list-style-type: none"> <li>15% tax (with corporate AMT eliminated)</li> </ul>
<b>Top Pass-Through Tax Rate</b>	<ul style="list-style-type: none"> <li>39.6% tax</li> </ul>	<ul style="list-style-type: none"> <li>25% tax</li> </ul>	<ul style="list-style-type: none"> <li>15% tax for pass-through entities that retain profits within the business</li> </ul>
<b>Accumulated Foreign Earnings Tax Rate</b>	<ul style="list-style-type: none"> <li>35% tax for previously untaxed foreign earnings when repatriated</li> </ul>	<ul style="list-style-type: none"> <li>One-time 8.75% tax on cash and 3.5% tax on non-cash assets payable over 8 years</li> </ul>	<ul style="list-style-type: none"> <li>One-time 10% tax</li> </ul>
<b>Future Foreign Earnings Tax Rate</b>	<ul style="list-style-type: none"> <li>Worldwide taxation with foreign tax credits</li> </ul>	<ul style="list-style-type: none"> <li>Territorial taxation with full exemption for dividends paid by foreign subsidiaries</li> </ul>	<ul style="list-style-type: none"> <li>No formal plan</li> </ul>
<b>Border Adjustment</b>	<ul style="list-style-type: none"> <li>No provision</li> </ul>	<ul style="list-style-type: none"> <li>Exempts income from exports and denies deductions for imports</li> </ul>	<ul style="list-style-type: none"> <li>No formal plan<sup>(1)</sup></li> </ul>
<b>Carried Interest</b>	<ul style="list-style-type: none"> <li>Taxed at capital gains rates</li> </ul>	<ul style="list-style-type: none"> <li>No provision</li> </ul>	<ul style="list-style-type: none"> <li>Taxed at ordinary rates</li> </ul>
<b>Cost Recovery</b>	<ul style="list-style-type: none"> <li>Deductible over applicable life</li> </ul>	<ul style="list-style-type: none"> <li>Full expensing for capital investments, excluding land</li> </ul>	<ul style="list-style-type: none"> <li>Election to fully expense U.S. manufacturing investments</li> </ul>
<b>Business Interest Expense</b>	<ul style="list-style-type: none"> <li>Deductible as incurred</li> </ul>	<ul style="list-style-type: none"> <li>Deductible only against net interest income</li> </ul>	<ul style="list-style-type: none"> <li>U.S. manufacturers that make expense election lose interest deductions</li> </ul>

<sup>(1)</sup> On January 26, 2017, President Trump announced that he is considering imposing a 20% tax on imports from Mexico.

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