Outlining the Trump Tax Plan

As a candidate in 2016, Donald Trump promised significant tax reform. A few months after becoming President, Trump released a one-page outline of his goals in that area. As the year goes on, we may see details added to his plan and eventually learn whether major tax legislation is enacted. Here are the major areas that will be addressed.

Taxes on Business

Trump wants to cap the corporate income tax rate at 15%. Currently, the top rate is 35%. Such a reduction, he asserts, would make American companies more competitive worldwide.

The outline also includes a one-time tax on "trillions of dollars" held overseas. Previously, Trump indicated that he favors a 10% tax on corporate offshore profits brought into the United States.

In addition, the plan would eliminate tax breaks for unspecified "special interests" and implement a "territorial tax system" to level the playing field for American companies. Generally, in a territorial tax system, domestic profits are taxed at the full rate, whereas profits from abroad are not subject to domestic income tax.

Taxes on Individuals

The Trump plan calls for reducing the number of tax brackets from seven to three. Today, individual taxpayers start with a 10% income tax rate and move into the 15%, 25%, 28%, 33%, 35%, and 39.6% brackets, as their taxable income increases. The three proposed tax rates would be 10%, 25%, and 35%.

Depending on the cut-off points for these tax rates, it's possible that taxpayers now in the 15% bracket would have a 10% marginal tax rate under this plan. Those in the 28%, 33%, and perhaps the 35% bracket could be in the 25% bracket, whereas the top rate would fall from 39.6% to 35%.

The tax plan also calls for doubling the standard deduction, which is available to individual taxpayers. That standard deduction is now $6,350 for single taxpayers, $9,350 for heads of households, and $12,700 for couples filing joint returns. Doubling those numbers would produce standard deductions of $12,700 for single filers, $18,700 for household heads, and $25,400 for married couples filing jointly.

In addition, the outline calls for tax relief for families with child and dependent care expenses without giving details. Press reports hint that one approach could be an increase in the child and dependent care tax credit, which now allows people with care-related outlays to reduce their tax bill by up to $2,100.

Tax Simplification

Under this heading, the outline would "protect" the home ownership and charitable gift tax deductions. In other words, many itemized deductions, such as medical expenses as well as state and local taxes paid, would be eliminated, but the deductions for home mortgage interest and charitable contributions would be spared.

Assuming the preceding proposals are enacted, more taxpayers would take the larger standard deduction rather than itemizing deductions. The only ones still itemizing would be taxpayers with mortgage interest and charitable deductions that exceed the standard deduction amounts.

The next item on the list—repeal the alternative minimum tax (AMT)—would possibly make the interaction between the standard deduction and itemized deductions more thought-provoking. As mentioned, state and local income and property tax no longer would be deductible. However, some people who now pay large amounts of those taxes owe the AMT and don't get the benefit of deducting such taxes. Would the repeal of the AMT make up for the loss of deducting state and local tax payments? Our office can go over the numbers for you in your specific circumstances.

The Trump outline also calls for repeal of the 3.8% surtax on net investment income, a tax that applies to taxpayers with high incomes. Currently high-income taxpayers can be subjected to a 43.4% marginal tax rate on some income, if they are in the 39.6% bracket and have ordinary investment income subject to the 3.8% tax. Long-term capital gains can be taxed at a rate as high as 23.8%, with the surtax included.

Also on the outline's "to repeal" list is the federal estate tax. This tax now has an exemption of $5.49 million, which can be $10.98 million for married couples, so relatively few estates owe this tax anyway. Still, owners of valuable small companies and investment property might get some relief when those assets pass to younger generations, if the estate tax is repealed.

Another bullet point in this section calls for eliminating targeted tax breaks that mainly benefit the wealthiest taxpayers.

From Outline to Legislation

Such an outline must be fleshed out before it's presented to Congress for approval or rejection. Observers predicted that the process probably would last beyond the lawmakers' August recess. Therefore, it's likely that taxpayers won't know until the fall whether any of these changes will become law this year.