Donald Trump releases tax reform plan, proposes corporate tax overhaul

The Republican candidate for President of the United States, Donald Trump, has released his campaign proposals for tax law changes, saying they will “make America great again”. The plan focuses on reforming the individual and corporate income tax code by lowering marginal tax rates on wage, investment and business income and lowering corporate tax rates.

With respect to corporate income tax, it proposes to reduce the tax rate from 35% to 15%, enact a deemed repatriation of corporate profits held offshore at a one-time tax rate of 10% and eliminate the corporate alternative minimum tax. Mr Trump also intends to allow firms engaged in manufacturing in the United States to choose between the full expensing of capital investment and the deductibility of interest paid, while eliminating most corporate tax expenditures except for R&D credit. Further, he proposes to increase the cap for the tax credit for employer-provided day care from $150,000 to $500,000, while reducing its recapture period from 10 years to 5 years and allowing businesses that pay a portion of an employee’s childcare expenses to exclude those contributions from income. With respect to individual income tax, the plan proposes to consolidate the current seven tax brackets into three for ordinary income and adapt current rates for qualified capital gains and dividends to the new brackets. Mr Trump also proposes to eliminate the individual alternative minimum tax, the estate tax and the 3.8% Obamacare tax on investment income, while increasing the standard deduction for single filers and married couples filing jointly and capping itemized deductions. The plan would make childcare/eldercare costs deductible from total income up to the average cost of care in the taxpayer’s state and offer spending rebates for childcare expenses to lower-income families through the earned income tax credit.

The United States presidential election of 2016, scheduled for 8 November 8 2016, is shaping up to be another nail-biter. The clash between presidential candidates Donald Trump (the Republican Party) and Hillary Clinton (the Democratic Party) is heading towards the home stretch, with the first of three debates scheduled for 26 September.

On 15 September 2016, Donald Trump released his tax reform plan, which, according to him, would “make America great again”. The plan seeks to reform the individual income tax code by lowering marginal tax rates on wage, investment, and business income, while broadening the individual income tax base. The plan would also lower the corporate income tax rate and modify the corporate income tax base. Finally, the plan would also eliminate federal estate and gift taxes.
The details of the key proposals are as follows:

**Individual Income Tax**

**Tax Rates**
- Consolidates the current seven tax brackets into three for ordinary income and adapts current rates for qualified capital gains and dividends to the new brackets:

<table>
<thead>
<tr>
<th>Ordinary Income Rate</th>
<th>Capital Gains Rate</th>
<th>Single Filers</th>
<th>Married Joint Filers</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>0%</td>
<td>$0 to $37,500</td>
<td>$0 to $75,000</td>
</tr>
<tr>
<td>25%</td>
<td>15%</td>
<td>$37,500 to $112,500</td>
<td>$75,000 to $225,000</td>
</tr>
<tr>
<td>33%</td>
<td>20%</td>
<td>$112,500+</td>
<td>$225,000+</td>
</tr>
</tbody>
</table>

- Carried interest to be taxed as ordinary income
- Eliminates the 3.8% Obamacare tax on investment income
- Eliminates the individual alternative minimum tax
- Eliminates the Head of Household filing status

**Deductions**
- Increases the standard deduction from $6,300 to $15,000 for singles and from $12,600 to $30,000 for married couples filing jointly
- Caps itemized deductions at $100,000 for single filers and $200,000 for married couples filing jointly

**Death tax**
- Eliminates the death tax, but capital gains held until death will be subject to tax, with the first $10 million tax free as under current law to exempt small businesses and family farms
- To prevent abuse, contributions of appreciated assets into a private charity established by the decedent or the decedent’s relatives will be disallowed

**Child care**
- Childcare costs deductible from total income for most Americans up to the average cost of care in their state. The deduction would not be available for individuals earning more than $250,000 or couples earning more than $500,000.
- Childcare exclusion would be provided to families who use stay-at-home
parents or grandparents, as well as those who use paid caregivers, and would be limited to four children (under age 13) per taxpayer

- Rebates for childcare expenses to certain low-income taxpayers through the earned income tax credit (EITC). The rebate would be equal to 7.65% of remaining eligible childcare expenses, subject to a cap of half of the payroll taxes paid by the taxpayer (based on the lower-earning parent in a two-earner household)
- Rebate would be available to married joint filers earning $62,400 ($31,200 for single taxpayers) or less. Limitations on costs eligible for exclusion and the number of beneficiaries would be the same as for the basic exclusion. The ceiling would increase with inflation each year
- All taxpayers would be able to establish dependent care savings accounts (DCSAs) for the benefit of specific individuals, including unborn children. Total annual contributions to a DCSA are limited to $2,000 per year from all sources, which include the account owner (the parent in the case of a minor or the person establishing an eldercare account), immediate family members of the account owner and the employer of the account owner. When established for children, the funds remaining in the account when the child reaches the age of 18 can be used for education expenses, but additional contributions could not be made.
- To encourage low-income families to establish DCSAs for their children, the government will provide a 50% match on parental contributions of up to $1,000 per year. When parents fill out their taxes, they can check a box to directly deposit any portion of their EITC into their DCSA. All deposits and earnings thereon will be free from taxation, and unused balances can roll over from year to year.

Elder care

- Most Americans will be able to take an above-the-line deduction that will be capped at the state average for eldercare for a dependent
- Eldercare exclusion would be capped at $5,000 per year. The cap would increase each year at the rate of inflation

Business Income Tax

- Reduces the corporate income tax rate from 35% to 15%
- Eliminates the corporate alternative minimum tax
- Eliminates most corporate tax expenditures except for the R&D credit
- Enacts a deemed repatriation of corporate profits held offshore at a one-time tax rate of 10%
- Allows firms engaged in manufacturing in the United States to choose between the full expensing of capital investment and the deductibility of interest paid. An election, once made, can only be revoked within the first 3 years of election; if revoked, returns for prior years would need to be amended to show revised status. After 3 years, election is irrevocable
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- Increases the cap for the tax credit for employer-provided day care under section 205 of the Economic Growth and Tax Relief Reconciliation Act of 2001 from $150,000 to $500,000 and reduces its recapture period from 10 years to 5 years.

- Businesses that pay a portion of an employee’s childcare expenses can exclude those contributions from income. Employees who are recipients of direct employer subsidies would not be able to exclude those costs from the individual income tax, and the costs of direct subsidies to employees could not be used as a cost eligible for the credit.

Click here to read the plan as hosted on Mr Trump’s campaign website.