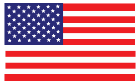
Baker McKenzie.

Whose tax is it anyway?

US Policy and Tax Reform: **what's in the pipeline on Capitol Hill?**

In April 2017, the Trump administration released its 'Tax Reform for Economic Growth and American Jobs'. The one-page plan was labelled 'the biggest individual and business tax cut in American history', yet it was scant on detail. Below, we share the White House's tax memo on business reform, annotated by Baker McKenzie.



Tax Reform for Economic Growth and American Jobs

Goals for Tax Reform

- Grow the economy and create millions of jobs
- Simplify our burdensome tax code
- Provide tax relief to American families—especially middle-income families
- Lower the business tax rate from one of the highest in the world to one of the lowest

Business Reform

- 15% business tax rate
- One-time tax on trillions of dollars held overseas
- Territorial tax system to level the playing field for American companies
- Eliminate tax breaks for special interests

Process

Throughout the month of May, the Trump administration has held listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of a plan that provides tax relief, creates jobs, and makes America more competitive — and can pass both chambers.

- Simplifying 'burdensome' regulation is likely targeting the Section 385 regulations on related party debt. It's doubtful that Treasury will be able to meet its deadlines for making the required reports, so prospects for repeal are uncertain.

- The 15% rate is unlikely to be revenue neutral. It's likely this rate is an opening salvo and the final rate is likely to be higher.

- In the short term, it seems that only the business rate tax and the one-off repatriation tax have any chance of being introduced.

- There is no mention of a Border-Adjusted Tax (BAT), advocated by Speaker of the House Paul Ryan. The BAT was seen as too controversial for fear that it would drive up prices for consumers in the US, but ruling out the BAT has shut down another avenue for revenue.
- The Senate will need to produce its own version of any tax legislation, which is likely to differ from the Paul Ryan blueprint, and this may take several years to prepare.

- It's not clear whether President Trump supports a single rate for overseas earnings, or a bifurcated rate between cash and non-cash assets. Congress may adopt a single rate for simplicity and revenue purposes, and that rate may be in the range of 8-14%.
- At present, multinationals allow overseas cash to build up and wait for a repatriation holiday, a situation that has become untenable. A one-off tax on overseas dollars would likely be used to fund a move to a territorial tax system, rather than on infrastructure spending or other priorities for the Trump administration.