

TAX PROPOSALS

FIRST 100 DAYS OF PRESIDENT TRUMP



Presenters

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TAX PROPOSAL

CURRENT LAW

- INDIVIDUAL
- CORPORATION
- FOREIGN
- SMALL BUSINESS

HOUSE REPUBLICAN PROPOSAL

- INDIVIDUAL
- CORPORATION
- FOREIGN
- SMALL BUSINESS

TRUMP PROPOSAL

- INDIVIDUAL
- CORPORATION
- FOREIGN
- SMALL BUSINESS



Changes on Individual Tax System

ITEMS	CURRENT LAW	HOUSE REPUBLICAN PROPOSAL	TRUMP PROPOSAL
TOP INDIVIDUAL TAX RATE	39.6%	33%	33%
TOP CAPITAL GAIN TAX RATE	23.8%	16.5%	33%
TOP DIVIDEND TAX RATE	23.8%	16.5%	20%
TOP RATE ON INTEREST INCOME	43.4%	16.5%	20%
MORTGAGE DEDUCTION	UP TO \$1,000,000 IN PRINCIPAL	RETAIN	RETAIN
STATE & LOCAL TAX DEDUCTION	UNLIMITED	REPEAL	RETAIN
HEALTH INSURANCE EXCLUSION	EMPLOYER- PAID PREMIUMS EXCLUDED FROM INCOME	UNSPECIFIED	RETAIN EXCLUSION
STANDARD DEDUCTION	\$12,600	\$24,000	\$30,000
AMT	TAXPAYER WITH HIGH ECONOMIC INCOME PAY MINIMUM TAX	REPEAL	REPEAL
ESTATE TAXES	NO CHANGES	REPEAL	REPEAL

Changes on Corporation Tax System

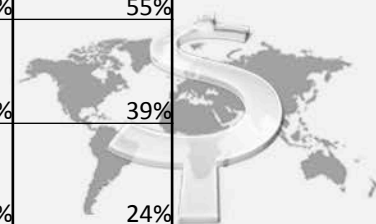
ITEMS	CURRENT LAW	HOUSE REPUBLICAN PROPOSAL	TRUMP PROPOSAL
CORPORATE RATE	35%	20%	15%
BUSINESS EXPENSING (SEE EXAMPLE 1 and 1A)	ACCEL. DEP. -50% BONUS THROUGH 2017 - 40% 2018 - 30% 2019	100% EXPENSED AT THE TIME OF INVESTMENT	OPTION TO ELECT 100% EXPENSING
CORP. NET INTEREST DEDUCTIBILITY (SEE EXAMPLE 2A AND 2B)	UNLIMITED	REPEAL	REPEAL FOR THOSE WHO ELECT 100% EXPENSING
CARRIED INTEREST (SEE EXAMPLE 3)	TAXED AT CAPITAL GAIN RATE	NO CHANGES	TAX AT ORDINARY RATE
AMT	CORPORATION TAXABLE INCOME ARE MORE THAN \$40,000	REPEAL	REPEAL



Corporation Tax Rate Data

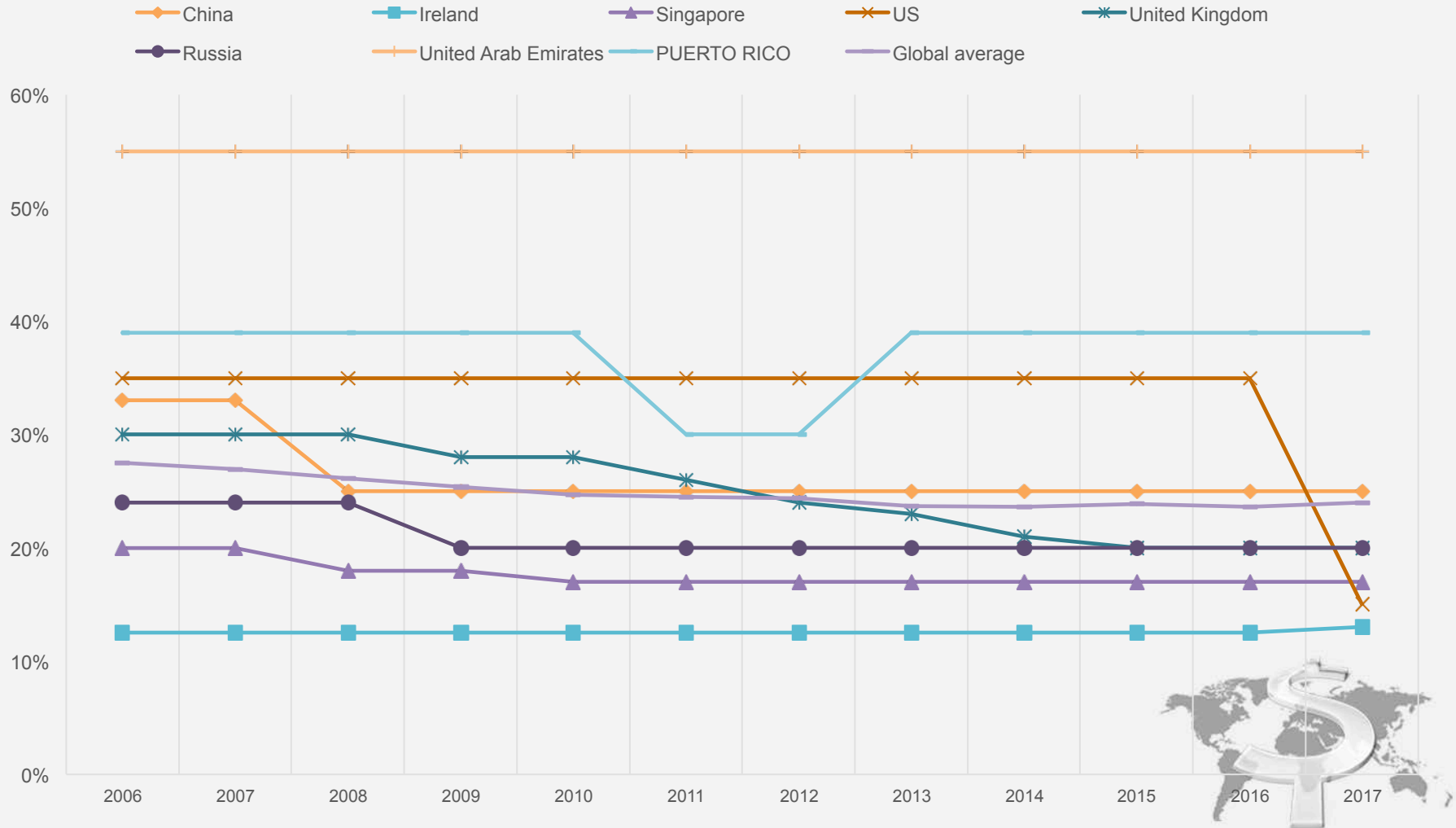
COUNTRY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
China	33%	33%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Ireland	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Singapore	20%	20%	18%	18%	17%	17%	17%	17%	17%	17%	17%	17%
United States	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	15%
United Kingdom	30%	30%	30%	28%	28%	26%	24%	23%	21%	20%	20%	20%
Russia	24%	24%	24%	20%	20%	20%	20%	20%	20%	20%	20%	20%
United Arab Emirates	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
Puerto Rico	39%	39%	39%	39%	39%	30%	30%	39%	39%	39%	39%	39%
Global average	28%	27%	26%	25%	25%	25%	24%	24%	24%	24%	24%	24%

**TRUMP
PROPOSAL**



Corporation Tax Rate

TAX RATE



EXAMPLE 1

ACTUAL RULES

• BUSINESS EXPENSIN G

INCOME	\$1,000,000
EXPENSES	(600,000)
COMPUTER EXPENSE	<u>(30,000)</u>
	\$370,000
NET INCOME	
TAX RATE	<u>20%</u>
TAX LIABILITY	\$74,000

DETAILS:
PURCHASE OF COMPUTER
COST: **300,000**
USEFUL LIFE: **10 YEARS**



EXAMPLE 1A

• BUSINESS EXPENSING

INCOME	\$1,000,000
EXPENSES	(600,000)
COMPUTER EXPENSE	<u>(300,000)</u>
	\$100,000
NET INCOME	
TAX RATE	<u>20%</u>
TAX LIABILITY	\$20,000

DETAILS:

PURCHASE OF COMPUTER

COST: **300,000**

USEFUL LIFE: **10 YEARS**

REPUBLICAN
AND
TRUMP
PROPOSAL



• INTEREST DEDUCTIBILITY

• EXAMPLE 2A

INVESTOR:

LOAN:

INTEREST:

YEARS:

\$5,000,000

10%

10



NET INCOME BEFORE INTEREST \$800,000

INTEREST (500,000)

TOTAL NET INCOME \$300,000

TAX RATE 20%

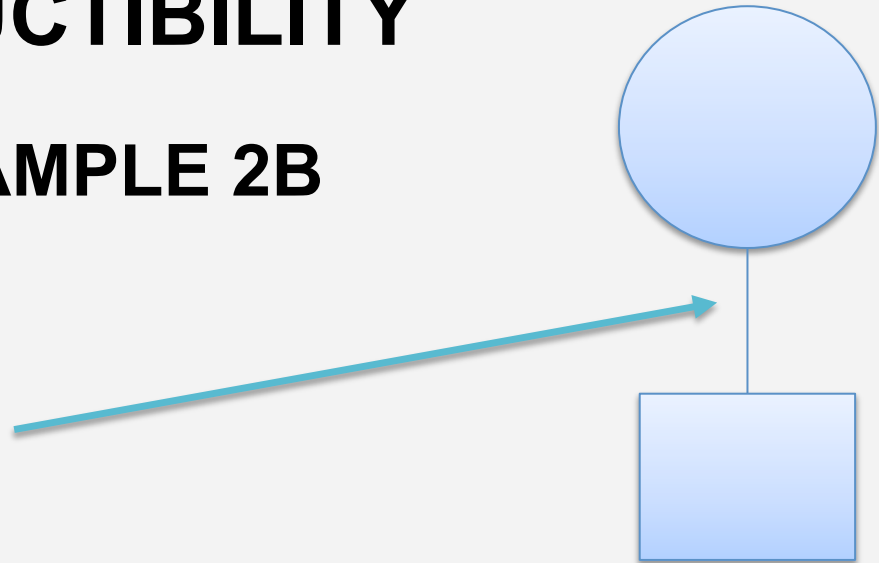
TAX LIABILITY **\$60,000**



- **INTEREST DEDUCTIBILITY**

- **EXAMPLE 2B**

INVESTOR:
STOCK: \$5,000,000
INTEREST: 10%

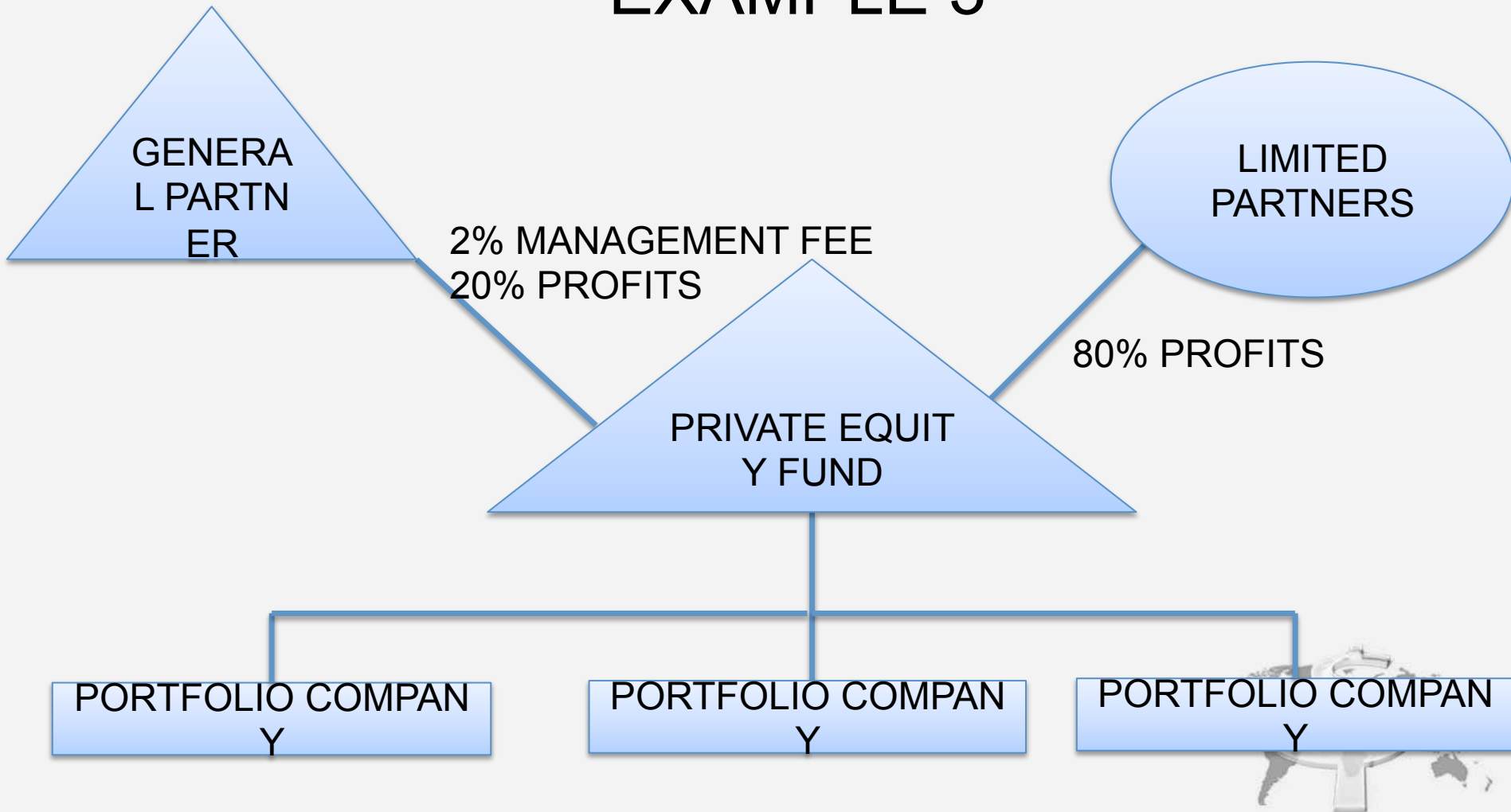


NET INCOME BEFORE INTEREST	\$800,000
INTEREST	<u>(0)</u>
TOTAL NET INCOME	\$800,000
TAX RATE	<u>20%</u>
TAX LIABILITY	\$160,000



CARRIED INTEREST

- EXAMPLE 3



Changes on Foreign Tax System

ITEMS	CURRENT LAW	HOUSE REPUBLICAN PROPOSAL	TRUMP PROPOSAL
CORP. FOREIGN INCOME RATE	35% IF/ WHEN EARNINGS REPATRIATED	33%	15%
TREATMENT OF IMPORTS AND EXPORTS (SEE EXAMPLE 2A AND 2B)	N/A	Imports- Taxable Export- Exempt	Implement Tariffs (35%)
ONE TIME TAX ON UNTAXED FOREIGN PROFITS (SEE EXAMPLE 1)	N/A	8.75% on cash or cash equivalent 3.5 % on reinvested untaxed earnings	10%

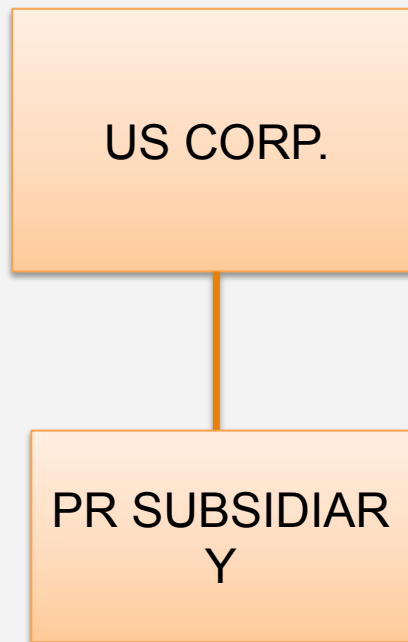


EXAMPLE



EXAMPLE 1

- ONE-TIME TAX ON UNTAXED FOREIGN PROFIT



ACTUAL RULES

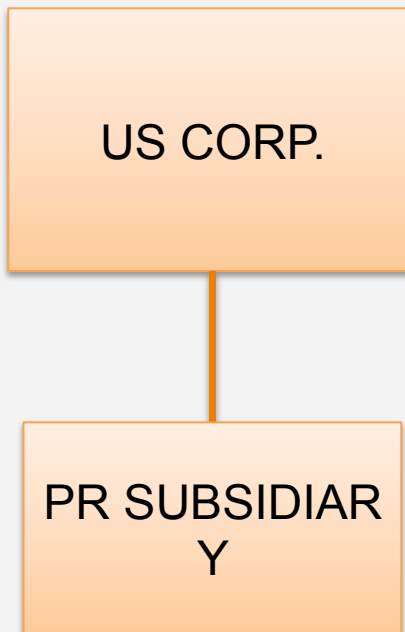
\$600 are distributed and tax rate is 35%

INCOME	\$10,000
EXPENSES	<u>(9,000)</u>
NET INCOME	\$1,000
PR TAX RATE	<u>40%</u>
PR TAX LIABILITY	\$400
	\$600
	<u>+3,000</u> retained earnings
	\$3,600

EXAMPLE 1A

- ONE-TIME TAX ON UNTAXED FOREIGN PROFIT

INCOME	\$10,000
EXPENSES	<u>(9,000)</u>
NET INCOME	\$1,000
PR TAX RATE	<u>40%</u>
PR TAX LIABILITY	\$400
	\$600
	<u>+3,000</u> retained earnings
	\$3,600



REPUBLICAN PROPOSAL



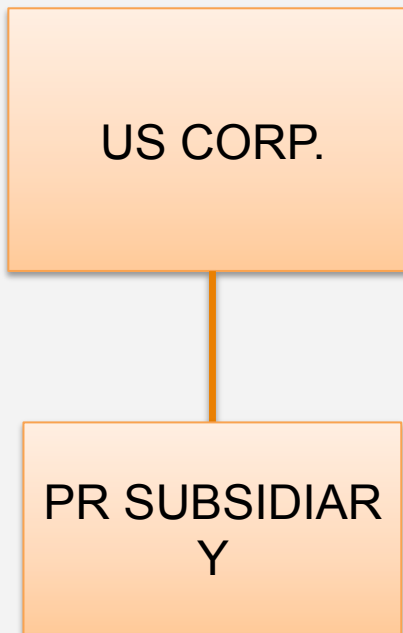
ACCUMULATED FOREIGN EARNINGS \$3,600
TAX RATE 8.75%
TAX LIABILITY \$315



EXAMPLE 1B

- ONE-TIME TAX ON UNTAXED FOREIGN PROFIT

INCOME	\$10,000
EXPENSES	<u>(9,000)</u>
NET INCOME	\$1,000
PR TAX RATE	<u>40%</u>
PR TAX LIABILITY	\$400
	\$600
	<u>+3,000</u> retained earnings
	\$3,600



TRUMP PROPOSAL



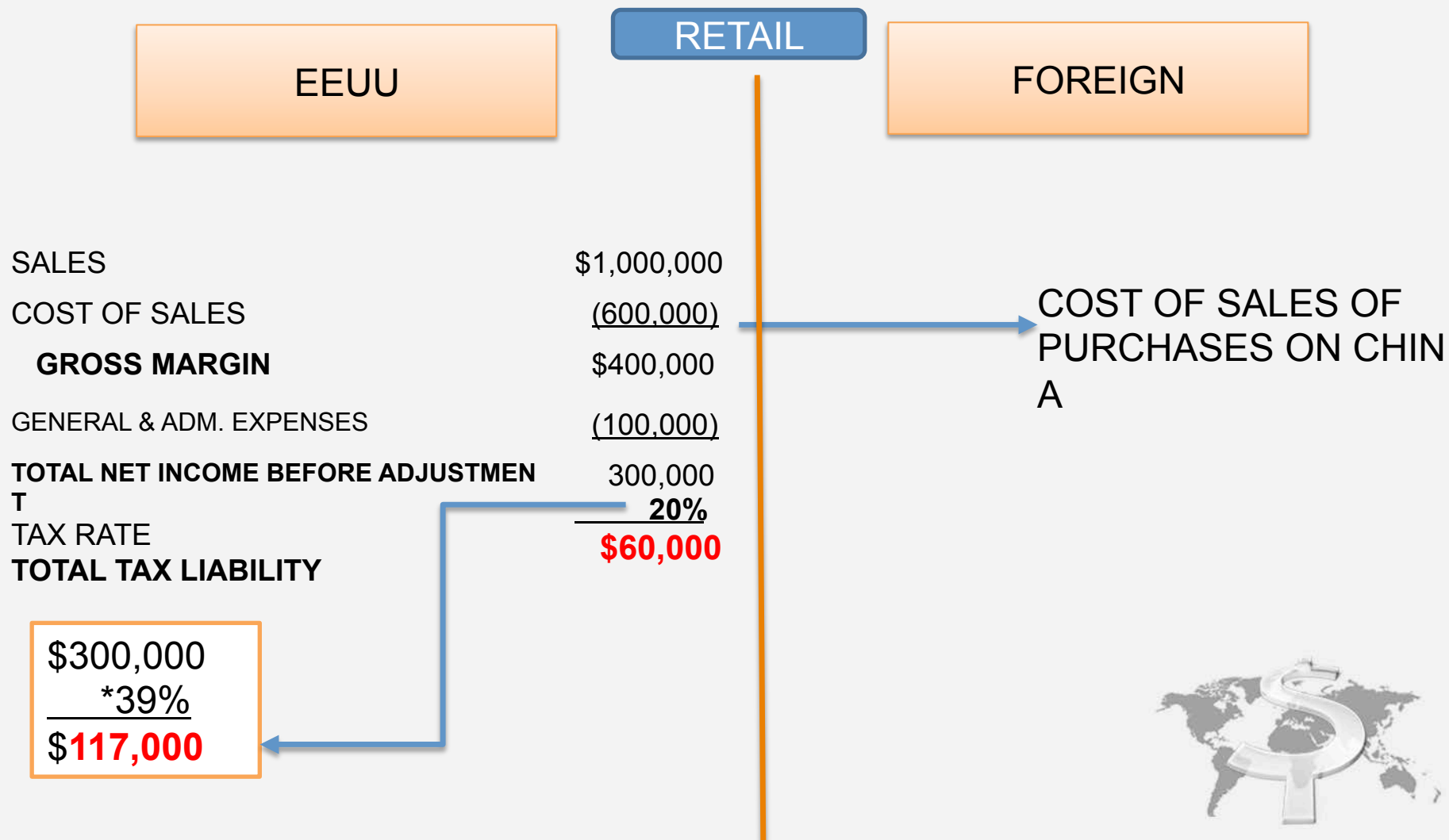
ACCUMULATED FOREIGN EARNINGS \$3,600
TAX RATE 10%
TAX LIABILITY \$360



EXAMPLE 2A

ACTUAL RULES

- BORDER ADJUSTMENT




EXAMPLE 2B

- BORDER ADJUSTMENT

	EEUU	RETAIL	FOREIGN
SALES		\$1,000,000	
COST OF SALES		<u>(600,000)</u>	
GROSS MARGIN		\$400,000	
GENERAL & ADM. EXPENSES		<u>(100,000)</u>	
TOTAL NET INCOME BEFORE ADJUSTMENT		300,000	
ADD: BORDER ADJUSTMENT		<u>600,000</u>	
TOTAL NET INCOME		\$900,000	
TAX RATE		<u>20%</u>	
TOTAL TAX LIABILITY		\$180,000	

COST OF SALES OF PURCHASES ON CHINA



EXAMPLE 3A

ACTUAL RULES

- BORDER ADJUSTMENT
MANUFACTURE
D

EEUU			FOREIGN
	SALES	\$6,000,000	
\$1,000,000	COST OF SALES	(4,000,000)	\$3,000,000
	GROSS MARGIN	\$2,000,000	
	GENERAL & ADM. EXPENSES	(800,000)	
	NET INCOME	1,200,000	
	TAX RATE	20%	
	TOTAL TAX LIABILITY	\$240,000	

\$1,200,000
*39%
\$480,000



EXAMPLE 3B

- BORDER ADJUSTMENT
MANUFACTURE
D

EEUU

FOREIGN

	SALES	\$6,000,000	
	COST OF SALES	<u>(4,000,000)</u>	\$3,000,000
\$1,000,000	GROSS MARGIN	\$2,000,000	
	GENERAL & ADM. EXPENSES	<u>(800,000)</u>	
	TOTAL NET INCOME BEFORE ADJUSTMENT	1,200,000	
	ADD: BORDER ADJUSTMENT	<u>3,000,000</u>	
	TOTAL NET INCOME	\$4,200,000	
	TAX RATE	<u>20%</u>	
	TOTAL TAX LIABILITY	\$840,000	



EXAMPLE 3C

• BORDER ADJUSTMENT

EEUU	MANUFACTURE D	FOREIGN
	SALES	\$6,000,000
		\$3,500,000
	COST OF SALES	(4,000,000)
\$1,000,000		
	GROSS MARGIN	\$2,000,000
		\$3,000,000
	GENERAL & ADM. EXPENSES	(800,000)
	TOTAL NET INCOME BEFORE ADJUSTMENT	1,200,000
	ADD: BORDER ADJUSTMENT	3,000,000
	LESS: EXPORT DEDUCTION	(3,500,000)
	TOTAL NET INCOME	\$700,000
	TAX RATE	<u>20%</u>
	TOTAL TAX LIABILITY	\$140,000



EXAMPLE 3D

• TRUMP PROPOSAL TARIFF

F

MANUFACTURE

D

EEUU

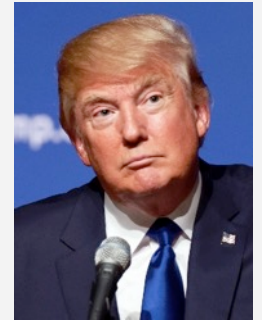
FOREIGN

	SALES	\$6,000,000	\$3,500,000
\$1,000,000	COST OF SALES	(4,000,000)	
	GROSS MARGIN	\$2,000,000	\$3,000,000
	TARIFF	(1,050,000)	
	GENERAL & ADM. EXPENSES	(800,000)	
	TOTAL NET INCOME	\$150,000	
	TAX RATE	20%	
	TOTAL TAX LIABILITY	\$30,000	



Practical Considerations

- “Any time I hear border adjustment, I don’t love it. Because it usually means we are going to get adjusted into a bad deal.” President Trump
- Considerations
 - Complicated
 - World Trade Organization
 - Currency Issues
 - Protectionism Practice



Changes on Small Business Tax System

ITEMS	CURRENT LAW	HOUSE REPUBLICAN PROPOSAL	TRUMP PROPOSAL
TOP PASS-THROUGH RATE	39.6%	25%	15%



TWO PART ANALYSIS

I. WORK EFFORT

- USUALLY ORDINARY INCOME

II. SALE OF ASSET

- USUALLY CAPITAL GAIN



QUESTIONS / COMMENTS

