

September 27, 2017

GOP Tax Framework Pledges “More Jobs, Fairer Taxes, Bigger Paychecks”

Earlier today, the Bix Six (Treasury Secretary Steven Mnuchin, National Economic Council Director Gary Cohn, Senate Majority Leader Mitch McConnell (R-KY), House Speaker Paul Ryan (R-WI), Senate Finance Committee Chairman Orrin Hatch (R-UT) and House Ways and Means Committee Chairman Kevin Brady (R-TX)) released their highly anticipated “Unified Framework for Fixing our Broken Tax Code.” Framed as the consensus position of the Executive Branch and congressional Republicans, the document represents a significant step toward the goal of enacting comprehensive tax reform this year. The full text of the “Unified Framework for Fixing our Broken Tax Code” can be found [here](#) and a one-page highlight document can be found [here](#).

The framework seeks to fulfill four principles that President Trump has identified to guide the tax reform effort: 1) Simplifying the tax code; 2) Reducing the tax burden on American workers, 3) Driving job creation and economic growth, and 4) Freeing up corporate earnings held overseas to fuel domestic investment. The framework notes that these principles “are consistent with the goals of both congressional tax-writing committees, and are at the core of this framework for fixing America’s broken tax code.”

Key Features

The framework includes the following key concepts:

- Reduces the number of individual tax brackets from seven to three (12%, 25% and 35%)
 - Leaves open the possibility of adding a fourth bracket for the highest-income taxpayers
 - Roughly doubles the standard deduction (\$12,000 for single filers, \$24,000 for married taxpayers filing jointly)
- Increases the Child Tax Credit (increasing the income threshold where the credit is phased out), and adds a \$500 non-refundable credit for non-child dependents
- Eliminates most itemized deductions (other than the home mortgage interest and charitable deductions, and other incentives focused on work, higher education and retirement security which may be “simplified to improve their efficiency and effectiveness”)
- Repeals the estate tax, the generation-skipping transfer tax and the individual Alternative Minimum Tax (AMT)
- Lowers the tax rate for small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations to 25%
- Lowers the corporate tax rate to 20% (currently 35%); aims to eliminate the corporate AMT
- Allows immediate expensing of new investments in depreciable assets other than structures made after September 27, 2017 for at least five years
- Eliminates the Section 199 domestic production deduction
- Preserves the R&D and low-income housing tax credits
- Partially limits the deduction for net interest expense incurred by C corporations
- Shifts from a worldwide to a territorial tax system, imposing a one-time “repatriation” tax on corporate earnings held overseas as part of the transition

Open Questions Remain

While the framework provides the greatest level of specificity to date around the unified Republican plan for tax reform, it also raises a number of important questions that highlight the enormity of the task that lays ahead for congressional tax-writers. Among the most important of these are:

- What measures will the “simplification” of incentives for work, higher education and retirement security entail?
- What specific exemptions, deductions, and credits for individuals will be eliminated or phased out?
- In connection with the contemplated lower tax rate on passthrough income, what measures will be taken to prevent fraud and abuse?
- How will the deduction for net interest expense be limited? What will be the implications of imposing these limitations on C corporations rather than for all businesses?
- The framework states that “the committees may decide to retain some other business credits to the extent budgetary limits allow” and pledges to modernize and streamline tax rules that apply to specific industries and sectors. What will this simplification look like in practice?
- What rate of tax will be imposed on accumulated foreign earnings? What rules will be put in place to address base erosion and profit shifting once the transition to a territorial tax system is complete?

These are just a few of the questions that will be facing policymakers in the weeks ahead, as they seek to translate the framework’s high-level concepts into legislative text.

Reactions to the Framework

Since this morning’s release of the framework, reactions from Members of Congress have been coming in throughout the day, which speak to some of the key policy and political challenges facing lawmakers. Please find below a summary of these reactions:

Senate

- **Senate Majority Leader Mitch McConnell (R-KY)** spoke on the Senate floor this morning, saying that tax reform “can unleash the economy.”
- **Senate Minority Leader Chuck Schumer (D-NY)** commented on the plan on Twitter, saying that “Their plan is pro-the top 1% of-Americans.” He tweeted that the plan cuts the tax rate for the wealthiest, but increases it “for those working to make it to the middle class.” During a speech on the Senate floor, Sen. Schumer said that a reduced tax rate on passthrough income could lead to abuse, including by creating a “loophole” for hedge fund executives to receive a lower rate of taxation on their income. He also criticized the use of dynamic scoring, calling it “fake math.”
- **Senate Finance Committee Chairman Orrin Hatch (R-UT)** said that his committee will not work on tax reform and health care at the same time.
- **Senate Finance Committee Ranking Member Ron Wyden (D-OR)** said “Lack of detail for the middle class guarantees that average Americans will be the ones hit with shrinking paychecks and higher tax bills.” “Senate Democrats remain steadfast in calling on Republicans to drop their failed partisan process and work together on a tax bill.”

- **Senator Bob Corker (R-TN)**, who announced yesterday that he will retire at the end of his term next year, predicted “tax reform is going to make health care look like a piece of cake.” He also said that he will not support legislation that adds to the deficit.

House

- **House Speaker Paul Ryan (R-WI)** said “Today we are taking the next step to liberate Americans from our broken tax code. This unified framework delivers a new tax code that is simple, that is fair, that is pro-growth, and pro-family... This is vital to America’s future. And it is urgent. We want the American people to wake up in the new year with a new system. So our tax writers on the House Ways and Means Committee will work with the members of Senate Finance to turn this framework into legislation.”
- In a press release, **House Ways and Means Committee Chairman Kevin Brady (R-TX)** said “This is an exciting day for the millions of Americans who are tired of today’s broken tax code and have waited for years for better job opportunities, more take-home pay, and a stronger economy...After years of work, we are moving forward with a unified framework that paves the way for bold, transformational tax reform - tax reform that will bring more jobs, fairer taxes, and bigger paychecks. We have a lot of work ahead. But this moment marks a major step forward in the process. Now it’s time for the Ways and Means Committee to build on this momentum and deliver legislation that President Trump can ultimately sign into law. We are closer than ever to finishing what we have started for the American people - and 2017 is our year to make it happen.”
- **House Minority Leader Nancy Pelosi (D-CA)** commented that the framework “gives away the store to the wealthiest, while sticking the middle class with the bill.” “Make no mistake: after Republicans’ tax plan blows a multi-trillion dollar hole in the deficit, they will sharpen their knives for Social Security, Medicare, Medicaid and vital job-creating investments for middle class families across America.”
- **House Ways and Means Committee Ranking Member Richard Neal (D-MA)**: “It’s clear from this plan that when it comes to tax reform, Republicans will always put the wealthy first. After more than a year of work, Republicans have only managed to produce a nine-page document without any of the significant details the American people deserve to know.” “In our meeting yesterday at the White House with Ways and Means Committee members, President Trump promised that under his tax plan, ‘the rich will not benefit.’ It’s clear that only a day later, Speaker Ryan and Leader McConnell have already broken that promise.”
- **Chairman of the Republican Study Committee Mark Walker (R-NC)** said “At first glance the policies released today are good news to the American people.” “We need to begin acting on this framework legislatively as soon as possible.”
- The **House Freedom Caucus** announced that it is supportive of the tax framework and will support the House Republican budget: “President Trump has delivered a forward looking tax reform framework that will let hard working Americans keep more of their money, simplify our system, end carve outs for special interests, and will help make our businesses competitive abroad. The Freedom Caucus looks forward to sending a final bill based on this framework to President Trump’s desk as soon as possible.”
- The **House Blue Dog Coalition** said that Republicans have an opportunity to use tax reform “to turn to the governing wings of both parties, use regular order and have real, open debate on the issue.” “The Blue Dogs want a real seat at the negotiating table, so we can work with Republicans and Democrats to produce a tax reform bill that is fiscally responsible.” They called the framework “laudable on paper, but the devil is in the details.”

Next Steps

Chairman Brady said this week that his Committee will release legislative language for a tax reform package after the House approves the FY 2018 budget resolution: “Until the budget is signed, sealed, delivered, and we know we have a runway to land tax reform on, we will not begin the tax reform process.” House Majority Leader Kevin McCarthy (R-CA), in turn, said that the budget could be considered as early as next week. In the Senate, Leader McConnell has indicated that there is agreement within the Senate Budget Committee to proceed with marking up an FY 2018 budget resolution next week. Senators Bob Corker (R-TN) and Pat Toomey (R-PA) helped shepherd the agreement, although the current version contemplates reconciliation instructions for tax reform only, not healthcare. Today, Senate Majority Whip John Cornyn (R-TX) said that he expects the budget resolution to proceed to the Senate floor for a vote soon after the markup.

Next week, several committees will hold hearings on tax reform:

Joint Economic Committee

[The Startup Slump: How Tax Reform Could Revive American Entrepreneurship](#)

Tuesday, October 3, at 10:00am

1100 Longworth House Office Building

Witnesses:

- John R. Dearie, Founder and President, Center for American Entrepreneurship, Great Falls, VA
- Falon Donohue, Chief Executive Officer, VentureOhio, Columbus, Ohio
- Scott A. Hodge, President, Tax Foundation, Washington, DC
- Mr. John Arensmeyer, CEO and Founder, Small Business Majority, Washington, DC

Senate Finance Committee

[International Tax Reform](#)

Tuesday, October 3, at 10:00am

215 Dirksen Senate Office Building

Witnesses:

- Bret Wells, Professor of Law and George Butler Research Professor of Law, Law Center, University of Houston, Houston, TX
- Kimberly Clausing, Ph.D., Thormund A. Miller and Walter Mintz Professor of Economics, Reed College, Portland, OR
- Stephen E. Shay, Senior Lecturer on Law, Harvard Law School, Harvard University, Cambridge, MA
- Itai Grinberg, Professor of Law, Law Center, Georgetown University, Washington, DC

House Small Business Committee

[Small Business Tax Reform: Modernizing the Code for the Nation’s Job Creators](#)

Wednesday, October 4, at 11:00am

2360 Rayburn House Office Building

Witnesses:

- Kristie Arslan, Entrepreneur-In-Residence and Small Business Counsel, Small Business & Entrepreneurship Council, Vienna, VA
- Miguel Centeno, Partner, Shared Economy CPA, Redondo Beach, CA
- Caroline Bruckner, Managing Director, Kogod Tax Policy Center, Executive-in-Residence, Accounting and Taxation, Kogod School of Business, American University, Washington, DC

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